

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2002

**EMMIS COMMUNICATIONS CORPORATION**

(Exact name of registrant as specified in its  
charter)

**INDIANA**

(State of incorporation or organization)

**0-23264**

(Commission file number)

**35-1542018**

(I.R.S. Employer  
Identification No.)

**ONE EMMIS PLAZA  
40 MONUMENT CIRCLE  
SUITE 700**

**INDIANAPOLIS, INDIANA 46204**  
(Address of principal executive offices)

**(317) 266-0100**

**(Registrant's Telephone Number,  
Including Area Code)**

**EMMIS OPERATING COMPANY**

(Exact name of registrant as specified in its  
charter)

**INDIANA**

(State of incorporation or organization)

**333-62172-13**

(Commission file number)

**35-2141064**

(I.R.S. Employer  
Identification No.)

**ONE EMMIS PLAZA  
40 MONUMENT CIRCLE  
SUITE 700**

**INDIANAPOLIS, INDIANA 46204**  
(Address of principal executive offices)

**(317) 266-0100**

**(Registrant's Telephone Number,  
Including Area Code)**

**NOT APPLICABLE**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes   X   No

The number of shares outstanding of each of Emmis Communications Corporation's classes of common stock, as of October 1, 2002, was:

48,238,032	Shares of Class A Common Stock, \$.01 Par Value
4,962,460	Shares of Class B Common Stock, \$.01 Par Value
0	Shares of Class C Common Stock, \$.01 Par Value

Emmis Operating Company has 1,000 shares of common stock outstanding as of October 1, 2002 and all of these shares are owned by Emmis Communications Corporation.

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## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

The Board of Directors and Shareholders  
Emmis Communications Corporation and Subsidiaries

We have reviewed the accompanying condensed consolidated balance sheet of Emmis Communications Corporation (an Indiana corporation) and Subsidiaries as of August 31, 2002, and the related condensed consolidated statements of operations for the three-month and six-month periods ended August 31, 2002, and the condensed consolidated statements of cash flows for the six-month period ended August 31, 2002. We have also reviewed the accompanying condensed consolidated balance sheet of Emmis Operating Company (an Indiana corporation and wholly owned subsidiary of Emmis Communications Corporation) and Subsidiaries as of August 31, 2002, and the related condensed consolidated statements of operations for the three-month and six-month periods ended August 31, 2002, and the condensed consolidated statements of cash flows for the six-month period ended August 31, 2002. These financial statements are the responsibility of the Companies' management. The condensed consolidated balance sheet, statement of operations, and statement of cash flows of both Emmis Communications Corporation and Subsidiaries and Emmis Operating Company and Subsidiaries as of August 31, 2001, and for the three-month and six-month periods then ended, were reviewed by other accountants who have ceased operations. Those accountants' report (dated September 26, 2001) stated that they were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements as of August 31, 2002, and for the three-month and six-month periods then ended for them to be in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

Indianapolis, Indiana  
September 26, 2002

**PART I – FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

**EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(In thousands, except per share data)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2001	2002	2001	2002
GROSS REVENUES	\$ 162,985	\$ 162,708	\$ 324,058	\$ 322,206
LESS: AGENCY COMMISSIONS	18,338	19,486	41,158	42,178
NET REVENUES	144,647	143,222	282,900	280,028
OPERATING EXPENSES:				
Station operating expenses, excluding noncash compensation	87,515	85,965	177,485	172,295
Time brokerage fees	-	-	479	-
Corporate expenses, excluding noncash compensation	4,568	5,046	9,525	10,179
Noncash compensation	1,591	5,775	4,331	11,130
Depreciation and amortization	25,086	10,593	49,222	21,352
Restructuring fees and other	196	-	768	-
Total operating expenses	118,956	107,379	241,810	214,956
OPERATING INCOME	25,691	35,843	41,090	65,072
OTHER INCOME (EXPENSE):				
Interest expense	(32,497)	(26,196)	(67,149)	(56,143)
Loss from unconsolidated affiliates	(1,232)	(3,014)	(2,096)	(4,080)
Gain on sale of assets	-	-	-	8,933
Other income (expense), net	277	610	1,736	1,257
Total other income (expense)	(33,452)	(28,600)	(67,509)	(50,033)
INCOME (LOSS) BEFORE INCOME TAXES, EXTRAORDINARY LOSS AND ACCOUNTING CHANGE	(7,761)	7,243	(26,419)	15,039
PROVISION (BENEFIT) FOR INCOME TAXES	(1,691)	3,022	(6,872)	6,652
INCOME (LOSS) BEFORE EXTRAORDINARY LOSS AND ACCOUNTING CHANGE	(6,070)	4,221	(19,547)	8,387
EXTRAORDINARY LOSS, NET OF TAXES	(1,084)	(8,777)	(1,084)	(11,117)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAXES OF \$102,600	-	-	-	(167,400)
NET LOSS	(7,154)	(4,556)	(20,631)	(170,130)
PREFERRED STOCK DIVIDENDS	2,246	2,246	4,492	4,492
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	\$ (9,400)	\$ (6,802)	\$ (25,123)	\$ (174,622)
Basic and diluted net income (loss) available to common shareholders:				
Before accounting change and extraordinary loss	\$ (0.18)	\$ 0.04	\$ (0.51)	\$ 0.08
Extraordinary loss, net of tax	(0.02)	(0.17)	(0.02)	(0.22)
Cumulative effect of accounting change, net of tax	-	-	-	(3.35)
Net loss available to common shareholders	\$ (0.20)	\$ (0.13)	\$ (0.53)	\$ (3.49)
Basic and diluted weighted average common shares outstanding	47,353	53,083	47,301	50,007

See independent accountants' review report and accompanying notes.

In the three months ended August 31, 2001 and 2002, \$1.5 million and \$4.8 million respectively, of our noncash compensation was attributable to our stations, while \$0.1 million and \$1.0 million was attributable to corporate. In the six months ended August 31, 2001 and 2002, \$3.4 million and \$9.5 million respectively, of our noncash compensation was attributable to our stations, while \$0.9 million and \$1.6 million was attributable to corporate.

**EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In thousands, except share data)

	February 28, 2002	August 31, 2002
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 6,362	\$ 11,655
Accounts receivable, net	95,240	107,538
Prepaid expenses	14,847	16,452
Income tax refund receivable	-	12,844
Other	23,657	17,279
Assets held for sale	123,416	-
Total current assets	<u>263,522</u>	<u>165,768</u>
 PROPERTY AND EQUIPMENT, NET	 231,139	 225,432
INTANGIBLE ASSETS (Note 3):		
Indefinite lived intangibles	1,743,235	1,509,019
Goodwill	175,132	138,986
Other intangibles, net	34,964	28,167
Total intangible assets	<u>1,953,331</u>	<u>1,676,172</u>
OTHER ASSETS, NET	62,077	50,653
Total assets	<u><u>\$ 2,510,069</u></u>	<u><u>\$ 2,118,025</u></u>

See independent accountants' review report and accompanying notes.

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Unaudited)

(In thousands, except share data)

	February 28, 2002	August 31, 2002
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 38,995	\$ 41,743
Current maturities of long-term debt	7,933	14,289
Current portion of TV program rights payable	27,507	19,920
Accrued salaries and commissions	7,852	9,054
Accrued interest	14,068	15,694
Deferred revenue	16,392	15,970
Other	7,531	8,570
Credit facility debt to be repaid with assets held for sale	135,000	-
Liabilities associated with assets held for sale	63	-
Total current liabilities	<u>255,341</u>	<u>125,240</u>
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,343,507	1,228,292
OTHER LONG-TERM DEBT, NET OF CURRENT MATURITIES	6,949	2,794
TV PROGRAM RIGHTS PAYABLE, NET OF CURRENT PORTION	40,551	33,939
OTHER NONCURRENT LIABILITIES	26,966	22,426
DEFERRED INCOME TAXES	<u>101,198</u>	<u>14,789</u>
Total liabilities	<u>1,774,512</u>	<u>1,427,480</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Series A cumulative convertible preferred stock, \$0.01 par value; \$50.00 liquidation value; authorized 10,000,000 shares; issued and outstanding 2,875,000 shares at February 28, 2002 and August 31, 2002	29	29
Class A common stock, \$.01 par value; authorized 170,000,000 shares; issued and outstanding 42,761,299 shares at February 28, 2002 and 48,167,184 shares at August 31, 2002	428	482
Class B common stock, \$.01 par value; authorized 30,000,000 shares; issued and outstanding 5,250,127 shares at February 28, 2002 and 4,962,460 shares at August 31, 2002	53	50
Additional paid-in capital	843,254	981,363
Accumulated deficit	(95,822)	(270,443)
Accumulated other comprehensive loss	(12,385)	(20,936)
Total shareholders' equity	<u>735,557</u>	<u>690,545</u>
Total liabilities and shareholders' equity	<u>\$ 2,510,069</u>	<u>\$ 2,118,025</u>

See independent accountants' review report and accompanying notes.

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)  
(Dollars in thousands)

	Six Months Ended August 31, 2001	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (20,631)	\$ (170,130)
Adjustments to reconcile net loss to net cash provided by operating activities -		
Cumulative effect of accounting change	-	167,400
Extraordinary loss	1,084	11,117
Depreciation and amortization	59,672	32,580
Accretion of interest on senior discount notes, including amortization of related debt costs	11,268	13,885
Provision for bad debts	1,884	2,179
Provision (benefit) for deferred income taxes	(6,872)	6,652
Noncash compensation	4,331	11,130
Gain on sale of assets	-	(8,933)
Other	(3,442)	(7,486)
Changes in assets and liabilities -		
Accounts receivable	(14,880)	(14,477)
Prepaid expenses and other current assets	6,582	4,134
Other assets	(17,061)	487
Accounts payable and accrued liabilities	5,007	4,182
Deferred revenue	(365)	(422)
Other liabilities	3,869	(16,775)
Net cash provided by operating activities	<u>30,446</u>	<u>35,523</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(19,539)	(12,186)
Cash paid for acquisitions	(140,746)	-
Proceeds from sale of assets, net	-	135,500
Other	(3,231)	(1,025)
Net cash provided by (used in) investing activities	<u>(163,516)</u>	<u>122,289</u>

See independent accountants' review report and accompanying notes.



EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
(Unaudited)  
(Dollars in thousands)

	Six Months Ended August 31, 2001	2002
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(113,000)	(269,525)
Proceeds from long-term debt	5,000	6,000
Proceeds from senior discount notes offering	202,612	-
Proceeds from issuance of the Company's Class A common stock, net of transaction costs	-	120,272
Proceeds from exercise of stock options	2,017	4,658
Preferred stock dividends paid	(4,492)	(4,492)
Premium paid to redeem senior discount notes	-	(6,678)
Debt related costs	(12,501)	(2,754)
	<u>79,636</u>	<u>(152,519)</u>
Net cash provided by (used in) financing activities		
	<u>79,636</u>	<u>(152,519)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(53,434)	5,293
CASH AND CASH EQUIVALENTS:		
Beginning of period	<u>59,899</u>	<u>6,362</u>
End of period	<u>\$ 6,465</u>	<u>\$ 11,655</u>
SUPPLEMENTAL DISCLOSURES:		
Cash paid for -		
Interest	\$ 54,269	\$ 39,455
Income taxes	1,058	630
ACQUISITION OF KKLTV-FM, KTAR-AM and KMVP-AM:		
Fair value of assets acquired	\$ 160,746	
Cash paid, net of deposit	140,746	
Deposit paid in June 2000	20,000	
Liabilities recorded	<u>\$ -</u>	<u>\$ -</u>

See independent accountants' review report and accompanying notes.

EMMIS OPERATING COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(Dollars in thousands)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2001	2002	2001	2002
GROSS REVENUES	\$ 162,985	\$ 162,708	\$ 324,058	\$ 322,206
LESS: AGENCY COMMISSIONS	18,338	19,486	41,158	42,178
NET REVENUES	144,647	143,222	282,900	280,028
OPERATING EXPENSES:				
Station operating expenses, excluding noncash compensation	87,515	85,965	177,485	172,295
Time brokerage fees	-	-	479	-
Corporate expenses, excluding noncash compensation	4,568	5,046	9,525	10,179
Noncash compensation	1,591	5,775	4,331	11,130
Depreciation and amortization	25,086	10,593	49,222	21,352
Restructuring fees and other	196	-	768	-
Total operating expenses	118,956	107,379	241,810	214,956
OPERATING INCOME	25,691	35,843	41,090	65,072
OTHER INCOME (EXPENSE):				
Interest expense	(25,644)	(19,818)	(55,882)	(42,258)
Loss from unconsolidated affiliates	(1,232)	(3,014)	(2,096)	(4,080)
Gain on sale of assets	-	-	-	8,933
Other income (expense), net	(698)	612	761	1,259
Total other income (expense)	(27,574)	(22,220)	(57,217)	(36,146)
INCOME (LOSS) BEFORE INCOME TAXES, EXTRAORDINARY LOSS AND ACCOUNTING CHANGE	(1,883)	13,623	(16,127)	28,926
PROVISION (BENEFIT) FOR INCOME TAXES	196	5,088	(3,186)	11,160
INCOME (LOSS) BEFORE EXTRAORDINARY LOSS AND ACCOUNTING CHANGE	(2,079)	8,535	(12,941)	17,766
EXTRAORDINARY LOSS, NET OF TAXES	(1,084)	(549)	(1,084)	(2,889)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAXES OF \$102,600	-	-	-	(167,400)
NET INCOME (LOSS)	\$ (3,163)	\$ 7,986	\$ (14,025)	\$ (152,523)

See independent accountants' review report and accompanying notes.

In the three months ended August 31, 2001 and 2002, \$1.5 million and \$4.8 million respectively, of our noncash compensation was attributable to our stations, while \$0.1 million and \$1.0 million was attributable to corporate. In the six months ended August 31, 2001 and 2002, \$3.4 million and \$9.5 million respectively, of our noncash compensation was attributable to our stations, while \$0.9 million and \$1.6 million was attributable to corporate.

EMMIS OPERATING COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except share data)

	February 28, 2002	August 31, 2002
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 6,362	\$ 11,655
Accounts receivable, net	95,240	107,538
Prepaid expenses	14,847	16,452
Income tax refund receivable	-	12,844
Other	23,657	17,279
Assets held for sale	123,416	-
Total current assets	263,522	165,768
PROPERTY AND EQUIPMENT, NET	231,139	225,432
<b>INTANGIBLE ASSETS (NOTE 3):</b>		
Indefinite lived intangibles	1,743,235	1,509,019
Goodwill	175,132	138,986
Other intangibles, net	34,964	28,167
Total intangible assets	1,953,331	1,676,172
OTHER ASSETS, NET	51,147	42,683
Total assets	<u>\$ 2,499,139</u>	<u>\$ 2,110,055</u>

See independent accountants' review report and accompanying notes.

EMMIS OPERATING COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Unaudited)

(Dollars in thousands, except share data)

	February 28, 2002	August 31, 2002
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 38,995	\$ 41,743
Current maturities of long-term debt	7,933	14,289
Current portion of TV program rights payable	27,507	19,920
Accrued salaries and commissions	7,852	9,054
Accrued interest	14,068	15,694
Deferred revenue	16,392	15,970
Other	6,408	7,447
Credit facility debt to be repaid with assets held for sale	135,000	-
Liabilities associated with assets held for sale	63	-
Total current liabilities	254,218	124,117
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,117,000	1,041,898
OTHER LONG-TERM DEBT, NET OF CURRENT MATURITIES	6,949	2,794
TV PROGRAM RIGHTS PAYABLE, NET OF CURRENT PORTION	40,551	33,939
OTHER NONCURRENT LIABILITIES	26,966	22,426
DEFERRED INCOME TAXES	108,988	27,921
Total liabilities	1,554,672	1,253,095
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDER'S EQUITY:</b>		
Common stock, no par value; authorized , issued and outstanding 1,000 shares at February 28, 2002 and Augusty 31, 2002	1,027,221	1,027,221
Additional paid-in capital	8,108	86,167
Accumulated deficit	(78,477)	(235,492)
Accumulated other comprehensive loss	(12,385)	(20,936)
Total shareholder's equity	944,467	856,960
Total liabilities and shareholder's equity	\$ 2,499,139	\$ 2,110,055

See independent accountants' review report and accompanying notes.

EMMIS OPERATING COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)  
(Dollars in thousands)

	Six Months Ended August 31, 2001	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (14,025)	\$ (152,523)
Adjustments to reconcile net loss to net cash provided by operating activities -		
Cumulative effect of accounting change	-	167,400
Extraordinary loss	1,084	2,889
Depreciation and amortization	59,672	32,580
Provision for bad debts	1,884	2,179
Provision (benefit) for deferred income taxes	(3,186)	11,160
Noncash compensation	4,331	11,130
Gain on sale of assets	-	(8,933)
Other	(3,442)	(8,406)
Changes in assets and liabilities -		
Accounts receivable	(14,880)	(14,477)
Prepaid expenses and other current assets	6,582	4,134
Other assets	(17,060)	486
Accounts payable and accrued liabilities	5,007	4,182
Deferred revenue	(365)	(422)
Other liabilities	2,746	(16,775)
Net cash provided by operating activities	28,348	34,604
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(19,539)	(12,186)
Cash paid for acquisitions	(140,746)	-
Proceeds from sale of assets, net	-	135,500
Other	(3,231)	(1,025)
Net cash provided by (used in) investing activities	(163,516)	122,289

See independent accountants' review report and accompanying notes.

EMMIS OPERATING COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Unaudited)  
(Dollars in thousands)

	Six Months Ended August 31, 2001	2002
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(113,000)	(216,102)
Proceeds from long-term debt	5,000	6,000
Distributions to parent	(4,492)	(2,246)
Contributions from parent	195,167	63,502
Debt related costs	(941)	(2,754)
	<u>81,734</u>	<u>(151,600)</u>
Net cash provided by (used in) financing activities		
	<u>81,734</u>	<u>(151,600)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(53,434)	5,293
CASH AND CASH EQUIVALENTS:		
Beginning of period	59,899	6,362
	<u>59,899</u>	<u>6,362</u>
End of period	\$ 6,465	\$ 11,655
	<u>\$ 6,465</u>	<u>\$ 11,655</u>
SUPPLEMENTAL DISCLOSURES:		
Cash paid for -		
Interest	\$ 54,269	\$ 39,455
Income taxes	1,058	630
ACQUISITION OF KKLTV-FM, KTAR-AM and KMVP-AM:		
Fair value of assets acquired	\$ 160,746	
Cash paid, net of deposit	140,746	
Deposit paid in June 2000	20,000	
Liabilities recorded	<u>\$ -</u>	

See independent accountants' review report and accompanying notes.

EMMIS COMMUNICATIONS CORPORATION AND SUBSIDIARIES  
AND EMMIS OPERATING COMPANY AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2002

(Unaudited)

Note 1. General

Pursuant to the rules and regulations of the Securities and Exchange Commission, the condensed consolidated interim financial statements included herein have been prepared, without audit, by Emmis Communications Corporation ("ECC") and its subsidiaries (collectively, "our," "us," "Emmis" or the "Company") and by Emmis Operating Company and its subsidiaries (collectively "EOC"). Unless otherwise noted, all disclosures contained in the Notes to Condensed Consolidated Financial Statements in this Form 10-Q apply to Emmis and EOC. As permitted under the applicable rules and regulations of the Securities and Exchange Commission, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations; however, Emmis believes that the disclosures are adequate to make the information presented not misleading. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report filed on Form 10-K for the year ended February 28, 2002. The Company's results are subject to seasonal fluctuations. Therefore, results shown on an interim basis are not necessarily indicative of results for a full year.

In the opinion of Emmis and EOC, respectively, the accompanying condensed consolidated interim financial statements contain all material adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position of Emmis and EOC at August 31, 2002 and the results of their operations for the three and six months ended August 31, 2001 and 2002 and their cash flows for the six months ended August 31, 2001 and 2002.

Note 2. Accounting Policies

*Basic and Diluted Net Income Per Common Share*

***Emmis***

Basic net income per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted. Potentially dilutive securities at August 31, 2001 and 2002 consisted of stock options and the 6.25% Series A cumulative convertible preferred stock. Neither the 6.25% Series A cumulative convertible preferred stock nor the stock options are included in the calculation of diluted net income per common share for the three and six months ended August 31, 2001 and 2002 as the effect of their conversion to common stock would be antidilutive. Weighted average shares excluded from the calculation of diluted net income per share that would result from the conversion of the 6.25% Series A cumulative convertible preferred stock and the conversion of stock options amounted to approximately 4.4 and 3.8 million shares for the three months ended August 31, 2001 and 2002, respectively, and 4.3 and 4.0 million shares for the six months ended August 31, 2001 and 2002, respectively.

### ***EOC***

Because EOC is a wholly-owned subsidiary of Emmis, disclosure of earnings per share for EOC is not required.

### ***Reclassifications***

Certain reclassifications have been made to the August 31, 2001 and February 28, 2002 financial statements to be consistent with the August 31, 2002 presentation. The reclassifications have no impact on net income or retained earnings previously reported.

### ***Advertising Costs***

The Company defers major advertising campaigns for which future benefits are demonstrated. These costs are amortized over the shorter of the estimated period benefited (generally six months) or the remainder of the fiscal year. The Company had deferred an immaterial amount of these costs as of August 31, 2002 and August 31, 2001.

### ***Recent Accounting Pronouncements***

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations." Statement No. 141 addresses financial accounting and reporting for business combinations and supersedes Accounting Principle Board ("APB") Opinion No. 16, "Business Combinations" and FASB Statement No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." Statement No. 141 is effective for all business combinations initiated after June 30, 2001 and eliminates the pooling-of-interest method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. Statement No. 141 also changes the criteria to recognize intangible assets apart from goodwill. The Company adopted this Statement on July 1, 2001. The Company has historically used the purchase method to account for all business combinations and adoption of this Statement did not have a material impact on the Company's financial position, cash flows or results of operations.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets". See Note 3 for a discussion of Statement No. 142.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" that applies to legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, development and/or the normal operation of a long-lived asset. Under this standard, guidance is provided on measuring and recording the liability. Adoption of this Statement by the Company will be effective on March 1, 2003. The Company does not believe that the adoption of this Statement will materially impact the Company's financial position, cash flows or results of operations.

Effective March 1, 2002, the Company adopted SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," it removes certain assets such as deferred tax assets, goodwill and intangible assets not being amortized from its scope and retains the requirements of SFAS No. 121 regarding the recognition of impairment losses on other long-lived assets held for use. SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring events and Transactions" for the disposal of a segment of



a business. However, SFAS No. 144 retains the requirement in Opinion No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. The adoption of this statement did not have a material impact on the Company's financial position, cash flows or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". Statement No. 145 rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, and FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". Statement No. 145 also rescinds FASB Statement No. 44, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Statement No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Adoption of this Statement by the Company will be effective on March 1, 2003. Upon adoption of this statement, the Company believes future write-offs of deferred debt fees resulting from extinguishments of debt will be recorded as interest expense and not as an extraordinary charge.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Statement No. 146 supersedes Emerging Issues Task Force Issue No. 94-3. Statement No. 146 requires that the liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, not at the date of an entity's commitment to an exit or disposal plan. The provisions of Statement No. 146 are effective for exit or disposal activities initiated after December 31, 2002. The Company does not anticipate that the adoption of Statement No. 146 will have a material impact on its consolidated financial position, results of operations or cash flows.

### Note 3. Intangible Assets and Goodwill

Effective March 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets", which requires the Company to cease amortizing goodwill and certain intangibles. Instead, these assets will be reviewed at least annually for impairment, and will be written down and charged to results of operations in periods in which the recorded value of goodwill and certain intangibles is more than its fair value. As of the date of adoption, the Company reflected unamortized goodwill and unamortized FCC licenses in the amounts of \$175.1 million and \$1,743.2 million, respectively. FCC licenses are renewed every eight years for a nominal amount and historically all of our FCC licenses have been renewed at the end of their respective eight-year periods. Since we expect that all of our FCC licenses will continue to be renewed in the future, we believe they have indefinite lives. The Company had previously amortized these assets over the maximum period allowed of 40 years. Adoption of this accounting standard eliminated the Company's amortization expense for goodwill and FCC licenses. For comparison purposes, for the three and six months ended August 31, 2001, the Company recorded amortization expense for goodwill and FCC licenses of \$16.1 million and \$30.0 million, respectively.

The following unaudited pro forma summary presents the Company's estimate of the effect of the adoption of Statement No. 142 as of the beginning of the periods presented. Reported income (loss) before extraordinary loss and accounting change and reported net loss available to common shareholder are adjusted to eliminate the amortization expense recognized in those periods related to goodwill and FCC licenses as these assets are not amortized under this new accounting standard.

# **EMMIS**

(Dollars in thousands, except per share data)

	Three months ended August 31,		Six months ended August 31,	
	2001	2002	2001	2002
Reported income (loss) before extraordinary loss and accounting change	\$ (6,070)	\$ 4,221	\$ (19,547)	\$ 8,387
Add back: amortization of goodwill, net of tax provision of \$621 and \$1,295 for the three and six months ended August 31, 2001	1,306	-	2,405	-
Add back: amortization of FCC licenses, net of tax provision of \$4,589 and \$9,214 for the three and six months ended August 31, 2001	9,565	-	17,111	-
Adjusted income (loss) before extraordinary loss and accounting change	<u>\$ 4,801</u>	<u>\$ 4,221</u>	<u>\$ (31)</u>	<u>\$ 8,387</u>
Reported net loss available to common shareholders	\$ (9,400)	\$ (6,802)	\$ (25,123)	\$ (174,622)
Add back: amortization of goodwill, net of tax provision of \$621 and \$1,295 for the three and six months ended August 31, 2001	1,306	-	2,405	-
Add back: amortization of FCC licenses, net of tax provision of \$4,589 and \$9,214 for the three and six months ended August 31, 2001	9,565	-	17,111	-
Adjusted net income (loss) available to common shareholders	<u>\$ 1,471</u>	<u>\$ (6,802)</u>	<u>\$ (5,607)</u>	<u>\$ (174,622)</u>
<b>Basic net loss available to common shareholders:</b>				
Reported net loss available to common shareholders	\$ (0.20)	\$ (0.13)	\$ (0.53)	\$ (3.49)
Amortization of goodwill, net of taxes	0.03	-	0.05	-
Amortization of FCC licenses, net of taxes	0.20	-	0.36	-
Adjusted net income (loss) available to common shareholders	<u>\$ 0.03</u>	<u>\$ (0.13)</u>	<u>\$ (0.12)</u>	<u>\$ (3.49)</u>
<b>Diluted net loss available to common shareholders:</b>				
Reported net loss available to common shareholders	\$ (0.20)	\$ (0.13)	\$ (0.53)	\$ (3.49)
Amortization of goodwill, net of taxes	0.03	-	0.05	-
Amortization of FCC licenses, net of taxes	0.20	-	0.36	-
Adjusted net income (loss) available to common shareholders	<u>\$ 0.03</u>	<u>\$ (0.13)</u>	<u>\$ (0.12)</u>	<u>\$ (3.49)</u>
Basic Shares	47,353	53,083	47,301	50,007
Diluted Shares	47,353	53,083	47,301	50,007

## *EOC*

(Dollars in thousands)	Three months ended August 31,		Six months ended August 31,	
	2001	2002	2001	2002
Reported income (loss) before extraordinary loss and accounting change	\$ (2,079)	\$ 8,535	\$ (12,941)	\$ 17,766
Add back: amortization of goodwill, net of tax provision of \$621 and \$1,295 for the three and six months ended August 31, 2001	1,306	-	2,405	-
Add back: amortization of FCC licenses, net of tax provision of \$4,589 and \$9,214 for the three and six months ended August 31, 2001	9,565	-	17,111	-
Adjusted income before extraordinary loss and accounting change	<u>\$ 8,792</u>	<u>\$ 8,535</u>	<u>\$ 6,575</u>	<u>\$ 17,766</u>
Reported net income (loss)	\$ (3,163)	\$ 7,986	\$ (14,025)	\$(152,523)
Add back: amortization of goodwill, net of tax provision of \$621 and \$1,295 for the three and six months ended August 31, 2001	1,306	-	2,405	-
Add back: amortization of FCC licenses, net of tax provision of \$4,589 and \$9,214 for the three and six months ended August 31, 2001	9,565	-	17,111	-
Adjusted net income (loss)	<u>\$ 7,708</u>	<u>\$ 7,986</u>	<u>\$ 5,491</u>	<u>\$(152,523)</u>

Because EOC is a wholly-owned subsidiary of Emmis, per share data is excluded.

### *Indefinite-lived Intangibles*

Under the guidance in Statement No. 142, the Company's FCC licenses are considered indefinite-lived intangibles. These assets, which the Company determined were its only indefinite-lived intangibles, are not subject to amortization, but will be tested for impairment at least annually. As of August 31, 2002 and February 28, 2002, the carrying amounts of the Company's FCC licenses were \$1,509.0 million and \$1,743.2 million, respectively.

In accordance with Statement No. 142, the Company tested these indefinite-lived intangible assets for impairment as of March 1, 2002 by comparing their fair value to their carrying value at that date. The Company recognized impairment on its FCC licenses of approximately \$145.0 million, net of \$88.8 million in tax benefit, which is recorded as a component of the cumulative effect of accounting change during the three months ended May 31, 2002. Approximately \$14.8 million of the charge, net of tax, related to our radio segment and \$130.2 million of the charge, net of tax, related to our television segment. The fair value of our FCC licenses used to calculate the impairment charge was determined by management, using an enterprise valuation approach. Enterprise value was determined by applying an estimated market multiple to the broadcast cash flow generated by each reporting unit. Market multiples were determined based on information available regarding publicly traded peer companies, recently completed or contemplated transactions within the industry, and reporting units' competitive position in their respective markets. Appropriate allocation was made to the tangible assets with the residual amount representing the estimated fair value of our indefinite lived intangible assets and goodwill. To the extent the carrying amount of the indefinite-lived intangible exceeded its fair value, the difference was recorded in the statement of operations, as described above. In the case of radio, the Company determined the reporting unit to be all of our stations in a local market, and in the

case of television and publishing, the Company determined the reporting unit to be each individual station or magazine. Throughout our fiscal 2002, unfavorable economic conditions persisted in the industries in which the Company engages. These conditions caused customers to reduce the amount of advertising dollars spent on the Company's media inventory as compared to prior periods, adversely impacting the cash flow projections used to determine the fair value of each reporting unit and public trading multiples of media stocks, resulting in the write-off of a portion of the carrying amount of our FCC licenses. The required impairment tests may result in future periodic write-downs.

### ***Goodwill***

Statement No. 142 requires the Company to test goodwill for impairment at least annually using a two-step process. The first step is a screen for potential impairment, while the second step measures the amount of impairment. The Company completed the two-step impairment test during the quarter ended May 31, 2002. As a result of this test, the Company recognized impairment of approximately \$22.4 million, net of \$13.8 million in tax benefit, as a component of the cumulative effect of an accounting change during the three months ended May 31, 2002. Approximately \$18.5 million of the charge, net of tax, related to our television segment and \$3.9 million of the charge, net of tax, related to our publishing segment. Consistent with the Company's approach to determining the fair value of our FCC licenses, the enterprise valuation approach was used to determine the fair value of each of the Company's reporting units, and a portion of the carrying value of our goodwill was written-off due to reductions in cash flow and public trading multiples of media stocks resulting from the unfavorable economic conditions that reduced advertising expenditures throughout our fiscal 2002. As of August 31, 2002 and February 28, 2002, the carrying amount of the Company's goodwill was \$139.0 million and \$175.1 million, respectively. The required impairment tests may result in future periodic write-downs.

### ***Definite-lived intangibles***

The Company has definite-lived intangible assets recorded that continue to be amortized in accordance with Statement No. 142. These assets consist primarily of foreign broadcasting licenses, subscription lists, lease rights, customer lists and non-compete agreements, all of which are amortized over the period of time the assets are expected to contribute directly or indirectly to the Company's future cash flows. In accordance with the transitional requirements of Statement No. 142, the Company reassessed the useful lives of these intangibles and determined that no changes to their useful lives were necessary. The following table presents the gross carrying amount and accumulated amortization for each major class of definite-lived intangible asset at February 28, 2002 and August 31, 2002 (dollars in thousands):

	February 28, 2002			August 31, 2002		
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
FOREIGN BROADCASTING LICENSES	\$ 22,542	\$ 8,694	\$ 13,848	\$ 18,693	\$ 9,327	\$ 9,366
SUBSCRIPTION LISTS	12,189	11,077	1,112	12,189	11,723	466
LEASE RIGHTS	11,502	407	11,095	11,502	551	10,951
CUSTOMER LISTS	7,371	1,734	5,637	7,371	3,035	4,336
NON-COMPETE AGREEMENTS	5,738	5,561	177	5,738	5,580	158
OTHER	4,335	1,240	3,095	4,211	1,321	2,890
TOTAL	<u>\$ 63,677</u>	<u>\$ 28,713</u>	<u>\$ 34,964</u>	<u>\$ 59,704</u>	<u>\$ 31,537</u>	<u>\$ 28,167</u>

Total amortization expense from definite-lived intangibles for the three and six months ended August 31, 2002 was \$1.7 million and \$3.6 million, respectively, and for the year ended February 28, 2002 was \$7.6 million. Foreign currency exchange rate differences reduced the carrying value of the foreign broadcasting licenses and related accumulated amortization as of August 31, 2002 by \$3.8 million and \$0.6 million,

respectively. The following table presents the Company's estimate of amortization expense for each of the five succeeding fiscal years for definite-lived intangibles recorded on our books as of February 28, 2002 (dollars in thousands):

FISCAL YEAR ENDED FEBRUARY,		
2003	\$	4,469
2004		3,460
2005		1,869
2006		910
2007		880

#### Note 4. Significant Events

##### *Equity Issuance*

In April 2002, ECC completed the sale of 4.6 million shares of its Class A common stock at \$26.80 per share resulting in total proceeds of \$123.3 million. The net proceeds of \$120.3 million were contributed to EOC and 50% of the net proceeds were used in April 2002 to repay outstanding obligations under our credit facility. The remainder was invested, and in July 2002 distributed to ECC and used to redeem approximately 22.6% of ECC's outstanding 12 ½% senior discount notes (see below).

In addition, during the three months ended May 31, 2002, 300,000 shares of Class B common stock were converted to Class A shares.

##### *Dispositions*

Effective May 1, 2002 Emmis completed the sale of substantially all of the assets of KALC-FM in Denver, Colorado to Entercom Communications Corp. for \$88.0 million. Proceeds from the sale were used to repay outstanding term loans under our credit facility. In connection with the sale, Emmis recorded a loss on sale of assets of \$1.3 million. On February 12, 2002, Emmis entered into a definitive agreement to sell KALC-FM to Entercom and Entercom began operating KALC-FM under a time brokerage agreement on March 16, 2002. Entercom paid Emmis approximately \$0.5 million under the time brokerage agreement, which is included in net revenues in the accompanying condensed consolidated statements of operations. The assets of KALC-FM were reflected as held for sale in the accompanying condensed consolidated balance sheets as of February 28, 2002. The \$87.7 million of credit facility debt repaid with the net proceeds of the sale was reflected as a current liability in the accompanying condensed consolidated balance sheets as of February 28, 2002.

Effective May 1, 2002 Emmis completed the sale of substantially all of the assets of KXPK-FM in Denver, Colorado to Entravision Communications Corporation for \$47.5 million. Proceeds were used to repay outstanding term loans under our credit facility. In connection with the sale, Emmis recorded a gain on sale of assets of \$10.2 million. Emmis entered into a definitive agreement to sell KXPK-FM to Entravision on February 12, 2002. The assets of KXPK-FM were reflected as held for sale in the accompanying condensed consolidated balance sheets as of February 28, 2002. The \$47.3 million of credit facility debt repaid with the net proceeds of the sale was reflected as a current liability in the accompanying condensed consolidated balance sheets as of February 28, 2002.

##### *Credit Facility Amendment*

On June 21, 2002, EOC amended its credit facility to (1) issue a \$500.0 million new Term B Loan which was used to repay amounts outstanding under the existing \$552.1 million Term B loan, (2) reset

financial covenants for the remaining term of the credit facility, and (3) permit EOC to make a one time cash distribution to ECC for the purpose of redeeming a portion of its 12 ½% senior discount notes.

The existing Term B Loan was repaid, in full, with the proceeds from the new Term B Loan and borrowings under the credit facility's revolving line of credit (Revolver). The new Term B Loan has the same terms as the existing Term B loan except that the applicable margin over the Eurodollar Rate Loan decreased from a maximum of 3.5% to a maximum of 2.5%. In connection with the repayment of the existing Term B Loan, the company recorded a \$0.5 million extraordinary charge, net of taxes of \$0.3 million, relating to the write off of deferred debt fees.

The amendment also decreased the total and senior leverage ratios (debt divided by pro forma EBITDA, as defined in the credit agreement) during the initial periods subsequent to the amendment and increased the total and senior leverage ratios in future periods. The interest coverage ratio requirement increased immediately following the effective date of the amendment but decreased in future periods, as compared to the previous requirements. The pro forma fixed charge coverage ratio requirement increased for the term of the credit facility. These changes to the financial covenants are applicable to the Revolver, Term A Loan and new Term B Loan.

#### *Discount Notes Redemption*

On July 1, 2002, ECC redeemed approximately 22.6% of its \$370.0 million, face value, 12 ½% Senior Discount Notes due 2011. Approximately \$60.1 million of the proceeds from the Company's April 2002 equity offering were used to repay approximately \$53.4 million of the carrying value of the discount notes at July 1, 2002 and pay approximately \$6.7 million for a redemption premium. The redemption premium and approximately \$1.6 million of deferred debt fees related to the discount notes, net of taxes of \$0.8 million, were recorded as an extraordinary charge in our quarter ended August 31, 2002 in the accompanying condensed consolidated statements of operations.

#### *Discontinuation of LMIV*

In the quarter ended August 31, 2002, the Company and other partners in the local media internet venture (LMIV) agreed to dissolve the joint venture. Consequently, in addition to recording our share of LMIV's losses for the quarter, the Company recorded a \$2.1 million charge to write off our investment in LMIV. This charge is reflected in loss from unconsolidated affiliates in the accompanying condensed consolidated statements of operations. The Company will continue an internet presence independent of LMIV.

#### Note 5. Comprehensive Loss

##### ***Emmis***

Comprehensive loss was comprised of the following for the three and six month periods ended August 31, 2001 and 2002 (dollars in thousands):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2001	2002	2001	2002
Net loss	\$ (7,154)	\$ (4,556)	\$ (20,631)	\$ (170,130)
Translation adjustment	(500)	(3,371)	12	(8,519)
Change in fair value of derivative instruments, net of associated tax benefit	<u>(935)</u>	<u>-</u>	<u>(1,923)</u>	<u>-</u>
Total comprehensive loss	<u>\$ (8,589)</u>	<u>\$ (7,927)</u>	<u>\$ (22,542)</u>	<u>\$ (178,649)</u>

The majority of the translation adjustment for the three and six months ended August 31, 2002 relates to the foreign currency devaluation in Argentina, where we have a 75% ownership interest in two radio stations.

### **EOC**

Comprehensive loss was comprised of the following for the three and six month periods ended August 31, 2001 and 2002 (dollars in thousands):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2001	2002	2001	2002
Net income (loss)	\$ (3,163)	\$ 7,986	\$ (14,025)	\$ (152,523)
Translation adjustment	(500)	(3,371)	12	(8,519)
Change in fair value of derivative instruments, net of associated tax benefit	<u>(935)</u>	<u>-</u>	<u>(1,923)</u>	<u>-</u>
Total comprehensive income (loss)	<u>\$ (4,598)</u>	<u>\$ 4,615</u>	<u>\$ (15,936)</u>	<u>\$ (161,042)</u>

The majority of the translation adjustment for the three and six months ended August 31, 2002 relates to the foreign currency devaluation in Argentina, where we have a 75% ownership interest in two radio stations.

#### Note 6. Segment Information

The Company's operations are aligned into three business segments: Radio, Television, and Publishing and Other. These business segments are consistent with the Company's management of these businesses and its financial reporting structure. Corporate represents expense not allocated to reportable segments.

The Company's segments operate primarily in the United States with one radio station located in Hungary and two radio stations located in Argentina. Total revenues of the radio station in Hungary for the three months ended August 31, 2001 and 2002 were \$2.1 million and \$2.7 million, respectively, and total revenues for the six months ended August 31, 2001 and 2002 were \$3.2 million and \$4.4 million, respectively. The carrying value of long lived assets of this radio station as of August 31, 2001 and 2002 was \$8.4 million and \$6.4 million, respectively. Total revenues of our two radio stations in Buenos Aires, Argentina for the three months ended August 31, 2001 and 2002 were \$2.4 million and \$0.4 million, respectively, and total revenues for the six months ended August 31, 2001 and 2002 were \$4.3 million and \$0.9 million, respectively. The carrying value of long lived assets of these radio stations as of August 31, 2001 and 2002 was \$18.0 million and \$4.7 million, respectively.

The Company evaluates performance of its operating entities based on broadcast cash flow (BCF) and publishing cash flow (PCF). Management believes that BCF and PCF are useful because they provide a meaningful comparison of operating performance between companies in the industry and serve as an indicator of the market value of a group of stations or publishing entities. BCF and PCF are generally recognized by the broadcast and publishing industries as a measure of performance and are used by analysts who report on the performance of broadcasting and publishing groups. BCF and PCF do not take into account Emmis' debt service requirements and other commitments and, accordingly, BCF and PCF are not necessarily indicative of amounts that may be available for dividends, reinvestment in Emmis' business or other discretionary uses.

BCF and PCF are not measures of liquidity or of performance in accordance with accounting principles generally accepted in the United States, and should be viewed as a supplement to, and not a substitute for, our results of operations presented on the basis of accounting principles generally accepted in the United States. Moreover, BCF and PCF are not standardized measures and may be calculated in a number of ways. Thus, our calculation of these non-GAAP measures may not be comparable to such non-GAAP measures calculated by other companies. Emmis defines BCF and PCF as revenues net of agency commissions and station operating expenses, excluding noncash compensation. The primary source of broadcast advertising revenues is the sale of advertising time to local and national advertisers. Publishing entities derive revenue from subscriptions, newsstand sales and the sale of print advertising.

The most significant station operating expenses, excluding noncash compensation are employee salaries and commissions, costs associated with programming, advertising and promotion, costs associated with producing a magazine, and station general and administrative costs.

The accounting policies as described in the summary of significant accounting policies included in the Company's Annual Report filed on Form 10-K for the year ended February 28, 2002 and in Note 2 to these condensed consolidated financial statements, are applied consistently across segments.

Unless otherwise noted, all information pertaining to segments applies to Emmis and EOC.



Three Months Ended August 31, 2002	Radio	Television	Publishing and Other	Corporate	Consolidated
	(Unaudited, dollars in thousands)				
Net revenues	\$ 69,890	\$ 55,426	\$ 17,906	\$ -	\$ 143,222
Station operating expenses, excluding noncash compensation	35,100	35,252	15,613	-	85,965
Broadcast/publishing cash flow	34,790	20,174	2,293	-	57,257
Corporate expenses, excluding noncash compensation	-	-	-	5,046	5,046
Noncash compensation	-	-	-	5,775	5,775
Depreciation and amortization	1,930	7,049	459	1,155	10,593
Operating income (loss)	<u>\$ 32,860</u>	<u>\$ 13,125</u>	<u>\$ 1,834</u>	<u>\$ (11,976)</u>	<u>\$ 35,843</u>
Total assets	<u>\$ 900,366</u>	<u>\$ 1,040,435</u>	<u>\$ 79,228</u>	<u>\$ 97,996</u>	<u>\$ 2,118,025</u>

With respect to EOC, the above information would be identical, except corporate total assets would be \$90,026 and consolidated total assets would be \$2,110,055.

Three Months Ended August 31, 2001	Radio	Television	Publishing and Other	Corporate	Consolidated
	(Unaudited, dollars in thousands)				
Net revenues	\$ 74,097	\$ 52,864	\$ 17,686	\$ -	\$ 144,647
Station operating expenses, excluding noncash compensation	37,811	34,001	15,703	-	87,515
Broadcast/publishing cash flow	36,286	18,863	1,983	-	57,132
Time brokerage fees	-	-	-	-	-
Corporate expenses, excluding noncash compensation	-	-	-	4,568	4,568
Noncash compensation	-	-	-	1,591	1,591
Depreciation and amortization	8,610	13,202	2,111	1,163	25,086
Restructuring fees and other	-	-	-	196	196
Operating income (loss)	<u>\$ 27,676</u>	<u>\$ 5,661</u>	<u>\$ (128)</u>	<u>\$ (7,518)</u>	<u>\$ 25,691</u>
Total assets	<u>\$ 1,086,048</u>	<u>\$ 1,297,075</u>	<u>\$ 92,423</u>	<u>\$ 117,598</u>	<u>\$ 2,593,144</u>

With respect to EOC, the above information would be identical, except corporate total assets would be \$106,519 and consolidated total assets would be \$2,582,065.

Six Months Ended August 31, 2002	Radio	Television	Publishing and Other	Corporate	Consolidated
(Unaudited, dollars in thousands)					
Net revenues	\$ 132,614	\$ 112,583	\$ 34,831	\$ -	\$ 280,028
Station operating expenses, excluding noncash compensation	69,508	72,064	30,723	-	172,295
Broadcast/publishing cash flow	63,106	40,519	4,108	-	107,733
Corporate expenses, excluding noncash compensation	-	-	-	10,179	10,179
Noncash compensation	-	-	-	11,130	11,130
Depreciation and amortization	4,023	13,979	1,049	2,301	21,352
Operating income (loss)	\$ 59,083	\$ 26,540	\$ 3,059	\$ (23,610)	\$ 65,072
Total assets	\$ 900,366	\$ 1,040,435	\$ 79,228	\$ 97,996	\$ 2,118,025

With respect to EOC, the above information would be identical, except corporate total assets would be \$90,026 and consolidated total assets would be \$2,110,055.

Six Months Ended August 31, 2001	Radio	Television	Publishing and Other	Corporate	Consolidated
(Unaudited, dollars in thousands)					
Net revenues	\$ 140,245	\$ 106,861	\$ 35,794	\$ -	\$ 282,900
Station operating expenses, excluding noncash compensation	74,847	69,875	32,763	-	177,485
Broadcast/publishing cash flow	65,398	36,986	3,031	-	105,415
Time brokerage fees	479	-	-	-	479
Corporate expenses, excluding noncash compensation	-	-	-	9,525	9,525
Noncash compensation	-	-	-	4,331	4,331
Depreciation and amortization	16,455	26,259	4,249	2,259	49,222
Restructuring fees and other	-	-	-	768	768
Operating income (loss)	\$ 48,464	\$ 10,727	\$ (1,218)	\$ (16,883)	\$ 41,090
Total assets	\$ 1,086,048	\$ 1,297,075	\$ 92,423	\$ 117,598	\$ 2,593,144

With respect to EOC, the above information would be identical, except corporate total assets would be \$106,519 and consolidated total assets would be \$2,582,065.

#### Note 7. Financial Information for Subsidiary Guarantors and Subsidiary Non-Guarantors of Emmis Operating Company

The 8 1/8% senior subordinated notes of EOC are fully and unconditionally guaranteed, jointly and severally, by certain direct and indirect subsidiaries of EOC (the "Subsidiary Guarantors"). As of February 28, 2002 and August 31, 2002, subsidiaries holding EOC's interest in its radio stations in Hungary and Argentina, as well as certain other subsidiaries (such as those conducting joint ventures with third parties), did not guarantee the senior subordinated notes (the "Subsidiary Non-Guarantors"). The claims of creditors of the Subsidiary Non-Guarantors have priority over the rights of EOC to receive dividends or distributions from such subsidiaries.

Presented below is condensed consolidating financial information for the EOC Parent Company Only, the Subsidiary Guarantors and the Subsidiary Non-Guarantors as of February 28, 2002 and August 31, 2002 and for the three and six months ended August 31, 2001 and 2002. EOC uses the equity method with respect to investments in subsidiaries.

Emmis Operating Company  
As of August 31, 2002  
Condensed Consolidating Balance Sheet  
(Unaudited, dollars in thousands)

	Parent Company Only	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations and Consolidating Entries	Consolidated
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 4,018	\$ 6,664	\$ 973	\$ -	\$ 11,655
Accounts receivable, net	-	104,286	3,252	-	107,538
Prepaid expenses	974	15,345	133	-	16,452
Income tax refund receivable	12,844	-	-	-	12,844
Other	-	17,222	57	-	17,279
Assets held for sale	-	-	-	-	-
Total current assets	17,836	143,517	4,415	-	165,768
Property and equipment, net	35,476	188,493	1,463	-	225,432
Intangible assets, net	4,336	1,662,470	9,366	-	1,676,172
Investment in affiliates	1,887,372	-	-	(1,887,372)	-
Other assets, net	36,134	10,148	252	(3,851)	42,683
Total assets	\$ 1,981,154	\$ 2,004,628	\$ 15,496	\$ (1,891,223)	\$ 2,110,055
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$ 15,510	\$ 19,963	\$ 6,270	\$ -	\$ 41,743
Current maturities of other long-term debt	34	5	15,471	(1,221)	14,289
Current portion of TV program rights payable	-	19,920	-	-	19,920
Accrued salaries and commissions	457	8,441	156	-	9,054
Accrued interest	15,694	-	-	-	15,694
Deferred revenue	-	15,970	-	-	15,970
Other	4,197	3,250	-	-	7,447
Credit facility debt to be repaid with assets held for sale	-	-	-	-	-
Liabilities associated with assets held for sale	-	-	-	-	-
Total current liabilities	35,892	67,549	21,897	(1,221)	124,117
Long-term debt, net of current maturities	1,041,898	-	-	-	1,041,898
Other long-term debt, net of current maturities	41	195	5,188	(2,630)	2,794
TV program rights payable, net of current portion	-	33,939	-	-	33,939
Other noncurrent liabilities	18,442	3,900	84	-	22,426
Deferred income taxes	27,921	-	-	-	27,921
Total liabilities	1,124,194	105,583	27,169	(3,851)	1,253,095
<b>Shareholder's equity</b>					
Common stock	1,027,221	-	-	-	1,027,221
Additional paid-in capital	86,167	-	4,393	(4,393)	86,167
Subsidiary investment	-	1,615,994	22,010	(1,638,004)	-
Retained earnings/(accumulated deficit)	(235,492)	283,051	(22,657)	(260,394)	(235,492)
Accumulated other comprehensive loss	(20,936)	-	(15,419)	15,419	(20,936)
Total shareholder's equity	856,960	1,899,045	(11,673)	(1,887,372)	856,960
Total liabilities and shareholder's equity	\$ 1,981,154	\$ 2,004,628	\$ 15,496	\$ (1,891,223)	\$ 2,110,055

Emmis Operating Company  
Condensed Consolidating Balance Sheet  
As of February 28, 2002  
(Unaudited, dollars in thousands)

	Parent Company Only	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations and Consolidating Entries	Consolidated
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ -	\$ 4,970	\$ 1,392	\$ -	\$ 6,362
Accounts receivable, net	-	91,244	3,996	-	95,240
Prepaid expenses	612	14,049	186	-	14,847
Income tax refund receivable	-	-	-	-	-
Other	271	23,312	74	-	23,657
Assets held for sale	-	123,416	-	-	123,416
Total current assets	883	256,991	5,648	-	263,522
Property and equipment, net	35,957	192,690	2,492	-	231,139
Intangible assets, net	5,637	1,933,846	13,848	-	1,953,331
Investment in affiliates	2,274,321	-	-	(2,274,321)	-
Other assets, net	43,428	12,655	527	(5,463)	51,147
Total assets	<u>\$ 2,360,226</u>	<u>\$ 2,396,182</u>	<u>\$ 22,515</u>	<u>\$ (2,279,784)</u>	<u>\$ 2,499,139</u>
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$ 15,646	\$ 18,373	\$ 4,976	\$ -	\$ 38,995
Current maturities of other long-term debt	34	10	10,722	(2,833)	7,933
Current portion of TV program rights payable	-	27,507	-	-	27,507
Accrued salaries and commissions	214	7,363	275	-	7,852
Accrued interest	14,047	-	21	-	14,068
Deferred revenue	-	16,392	-	-	16,392
Other	2,813	3,595	-	-	6,408
Credit facility debt to be repaid with assets held for sale	135,000	-	-	-	135,000
Liabilities associated with assets held for sale	-	63	-	-	63
Total current liabilities	167,754	73,303	15,994	(2,833)	254,218
Long-term debt, net of current maturities	1,117,000	-	-	-	1,117,000
Other long-term debt, net of current maturities	41	366	9,172	(2,630)	6,949
TV program rights payable, net of current portion	-	40,551	-	-	40,551
Other noncurrent liabilities	21,976	4,403	587	-	26,966
Deferred income taxes	108,988	-	-	-	108,988
Total liabilities	1,415,759	118,623	25,753	(5,463)	1,554,672
Shareholder's equity					
Common stock	1,027,221	-	-	-	1,027,221
Additional paid-in capital	8,108	-	4,393	(4,393)	8,108
Subsidiary investment	-	1,883,897	20,650	(1,904,547)	-
Retained earnings/(accumulated deficit)	(78,477)	393,662	(21,380)	(372,282)	(78,477)
Accumulated other comprehensive loss	(12,385)	-	(6,901)	6,901	(12,385)
Total shareholder's equity	944,467	2,277,559	(3,238)	(2,274,321)	944,467
Total liabilities and shareholder's equity	<u>\$ 2,360,226</u>	<u>\$ 2,396,182</u>	<u>\$ 22,515</u>	<u>\$ (2,279,784)</u>	<u>\$ 2,499,139</u>

Emmis Operating Company  
Condensed Consolidating Statement of Operations  
For the Three Months Ended August 31, 2002  
(Unaudited, dollars in thousands)

	Parent Company Only	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations and Consolidating Entries	Consolidated
Net revenues	\$ 225	\$ 139,838	\$ 3,159	\$ -	\$ 143,222
Operating expenses:					
Station operating expenses, excluding noncash compensation	183	83,354	2,428	-	85,965
Corporate expenses, excluding noncash compensation	5,046	-	-	-	5,046
Noncash compensation	4,332	1,443	-	-	5,775
Depreciation and amortization	1,155	8,735	703	-	10,593
Total operating expenses	10,716	93,532	3,131	-	107,379
Operating income (loss)	(10,491)	46,306	28	-	35,843
Other income (expense)					
Interest expense	(19,474)	(392)	(128)	176	(19,818)
Loss from unconsolidated affiliates	-	(3,014)	-	-	(3,014)
Other income (expense), net	288	246	217	(139)	612
Total other income (expense)	(19,186)	(3,160)	89	37	(22,220)
Income (loss) before income taxes, extraordinary loss and accounting change	(29,677)	43,146	117	37	13,623
Provision (benefit) for income taxes	(11,307)	16,395	-	-	5,088
Income (loss) before extraordinary loss and accounting change	(18,370)	26,751	117	37	8,535
Extraordinary loss, net of tax	(549)	-	-	-	(549)
Equity in earnings (loss) of subsidiaries	26,905	-	-	(26,905)	-
Net income (loss)	\$ 7,986	\$ 26,751	\$ 117	\$ (26,868)	\$ 7,986

Emmis Operating Company  
Condensed Consolidating Statement of Operations  
For the Three Months Ended August 31, 2001  
(Unaudited, dollars in thousands)

	Parent Company Only	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations and Consolidating Entries	Consolidated
Net revenues	\$ 759	\$ 139,339	\$ 4,549	\$ -	\$ 144,647
Operating expenses:					
Station operating expenses, excluding noncash compensation	403	83,690	3,422	-	87,515
Corporate expenses, excluding noncash compensation	4,568	-	-	-	4,568
Noncash compensation	1,193	398	-	-	1,591
Depreciation and amortization	1,163	23,104	819	-	25,086
Restructuring fees and other	196	-	-	-	196
Total operating expenses	<u>7,523</u>	<u>107,192</u>	<u>4,241</u>	<u>-</u>	<u>118,956</u>
Operating income (loss)	<u>(6,764)</u>	<u>32,147</u>	<u>308</u>	<u>-</u>	<u>25,691</u>
Other income (expense)					
Interest expense	(25,132)	100	(780)	168	(25,644)
Loss from unconsolidated affiliates	-	(1,232)	-	-	(1,232)
Other income (expense), net	307	(753)	(49)	(203)	(698)
Total other income (expense)	<u>(24,825)</u>	<u>(1,885)</u>	<u>(829)</u>	<u>(35)</u>	<u>(27,574)</u>
Income (loss) before income taxes, extraordinary loss and accounting change	(31,589)	30,262	(521)	(35)	(1,883)
Provision (benefit) for income taxes	<u>(11,200)</u>	<u>11,396</u>	<u>-</u>	<u>-</u>	<u>196</u>
Income (loss) before extraordinary loss and accounting change	(20,389)	18,866	(521)	(35)	(2,079)
Extraordinary loss, net of tax	(1,084)	-	-	-	(1,084)
Equity in earnings (loss) of subsidiaries	18,310	-	-	(18,310)	-
Net income (loss)	<u>\$ (3,163)</u>	<u>\$ 18,866</u>	<u>\$ (521)</u>	<u>\$ (18,345)</u>	<u>\$ (3,163)</u>

Emmis Operating Company  
Condensed Consolidating Statement of Operations  
For the Six Months Ended August 31, 2002  
(Unaudited, dollars in thousands)

	Parent Company Only	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations and Consolidating Entries	Consolidated
Net revenues	\$ 456	\$ 274,223	\$ 5,349	\$ -	\$ 280,028
Operating expenses:					
Station operating expenses, excluding noncash compensation	372	166,995	4,928	-	172,295
Corporate expenses, excluding noncash compensation	10,179	-	-	-	10,179
Noncash compensation	8,348	2,782	-	-	11,130
Depreciation and amortization	2,301	17,630	1,421	-	21,352
Total operating expenses	21,200	187,407	6,349	-	214,956
Operating income (loss)	(20,744)	86,816	(1,000)	-	65,072
Other income (expense)					
Interest expense	(41,383)	(453)	(773)	351	(42,258)
Loss from unconsolidated affiliates	-	(4,080)	-	-	(4,080)
Gain on sale of assets	-	8,933	-	-	8,933
Other income (expense), net	639	379	496	(255)	1,259
Total other income (expense)	(40,744)	4,779	(277)	96	(36,146)
Income (loss) before income taxes, extraordinary loss and accounting change	(61,488)	91,595	(1,277)	96	28,926
Provision (benefit) for income taxes	(23,646)	34,806	-	-	11,160
Income (loss) before extraordinary loss and accounting change	(37,842)	56,789	(1,277)	96	17,766
Extraordinary item, net of tax	(2,889)	-	-	-	(2,889)
Cumulative effect of accounting change, net of tax	(167,400)	(167,400)	-	167,400	(167,400)
Equity in earnings (loss) of subsidiaries	55,608	-	-	(55,608)	-
Net income (loss)	\$ (152,523)	\$ (110,611)	\$ (1,277)	\$ 111,888	\$ (152,523)

Emmis Operating Company  
Condensed Consolidating Statement of Operations  
For the Six Months Ended August 31, 2001  
(Unaudited, dollars in thousands)

	Parent Company Only	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations and Consolidating Entries	Consolidated
Net revenues	\$ 1,102	\$ 274,298	\$ 7,500	\$ -	\$ 282,900
Operating expenses:					
Station operating expenses, excluding noncash compensation	716	169,920	6,849	-	177,485
Time brokerage fees	-	479	-	-	479
Corporate expenses, excluding noncash compensation	9,525	-	-	-	9,525
Noncash compensation	3,248	1,083	-	-	4,331
Depreciation and amortization	2,259	45,318	1,645	-	49,222
Restructuring fees and other	768	-	-	-	768
Total operating expenses	16,516	216,800	8,494	-	241,810
Operating income (loss)	(15,414)	57,498	(994)	-	41,090
Other income (expense)					
Interest expense	(54,482)	(145)	(1,591)	336	(55,882)
Loss from unconsolidated affiliates	-	(2,096)	-	-	(2,096)
Other income (expense), net	1,217	(169)	(63)	(224)	761
Total other income (expense)	(53,265)	(2,410)	(1,654)	112	(57,217)
Income (loss) before income taxes, extraordinary loss and accounting change	(68,679)	55,088	(2,648)	112	(16,127)
Provision (benefit) for income taxes	(23,925)	20,739	-	-	(3,186)
Income (loss) before extraordinary loss and accounting change	(44,754)	34,349	(2,648)	112	(12,941)
Extraordinary item, net of tax	(1,084)	-	-	-	(1,084)
Cumulative effect of accounting change, net of tax	-	-	-	-	-
Equity in earnings (loss) of subsidiaries	31,813	-	-	(31,813)	-
Net income (loss)	<u>\$ (14,025)</u>	<u>\$ 34,349</u>	<u>\$ (2,648)</u>	<u>\$ (31,701)</u>	<u>\$ (14,025)</u>



Emmis Operating Company  
Condensed Consolidating Statement of Cash Flows  
For the Six Months Ended August 31, 2002  
(Unaudited, dollars in thousands)

	Parent Company Only	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations and Consolidating Entries	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	\$ (152,523)	\$ (110,611)	\$ (1,277)	\$ 111,888	\$ (152,523)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities -					
Cumulative effect of accounting change	167,400	167,400	-	(167,400)	167,400
Extraordinary item	2,889	-	-	-	2,889
Depreciation and amortization	3,881	27,278	1,421	-	32,580
Provision for bad debts	-	2,179	-	-	2,179
Provision (benefit) for deferred income taxes	11,160	-	-	-	11,160
Noncash compensation	8,348	2,782	-	-	11,130
Gain on sale of assets	-	(8,933)	-	-	(8,933)
Equity in earnings of subsidiaries	(55,608)	-	-	55,608	-
Other	96	111	(8,517)	(96)	(8,406)
Changes in assets and liabilities -					
Accounts receivable	-	(15,221)	744	-	(14,477)
Prepaid expenses and other current assets	(91)	4,155	70	-	4,134
Other assets	6,350	(6,139)	275	-	486
Accounts payable and accrued liabilities	2,935	93	1,154	-	4,182
Deferred liabilities	-	(422)	-	-	(422)
Other liabilities	(3,100)	(9,188)	(4,487)	-	(16,775)
Net cash provided (used) by investing activities	<u>(8,263)</u>	<u>53,484</u>	<u>(10,617)</u>	<u>-</u>	<u>34,604</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchases of property and equipment	(1,820)	(11,227)	861	-	(12,186)
Proceeds from sale of assets	-	135,500	-	-	135,500
Other	<u>(1,025)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,025)</u>
Net cash provided (used) by investing activities	<u>(2,845)</u>	<u>124,273</u>	<u>861</u>	<u>-</u>	<u>122,289</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Payments on long-term debt	(216,102)	-	-	-	(216,102)
Proceeds from long-term debt	6,000	-	-	-	6,000
Intercompany	227,982	(176,063)	9,337	-	61,256
Debt related costs	<u>(2,754)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,754)</u>
Net cash provided (used) by investing activities	<u>15,126</u>	<u>(176,063)</u>	<u>9,337</u>	<u>-</u>	<u>(151,600)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,018	1,694	(419)	-	5,293
CASH AND CASH EQUIVALENTS:					
Beginning of period	<u>-</u>	<u>4,970</u>	<u>1,392</u>	<u>-</u>	<u>6,362</u>
End of period	<u>\$ 4,018</u>	<u>\$ 6,664</u>	<u>\$ 973</u>	<u>\$ -</u>	<u>\$ 11,655</u>

Emmis Operating Company  
Condensed Consolidating Statement of Cash Flows  
For the Six Months Ended August 31, 2001  
(Unaudited, dollars in thousands)

	Parent Company Only	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations and Consolidating Entries	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	\$ (14,025)	\$ 34,349	\$ (2,648)	\$ (31,701)	\$ (14,025)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities -					
Extraordinary item	1,084	-	-	-	1,084
Depreciation and amortization	4,960	53,066	1,646	-	59,672
Provision for bad debts	-	1,884	-	-	1,884
Provision (benefit) for deferred income taxes	(3,186)	-	-	-	(3,186)
Noncash compensation	3,248	1,083	-	-	4,331
Equity in earnings of subsidiaries	(31,813)	-	-	31,813	-
Other	(3,457)	115	12	(112)	(3,442)
Changes in assets and liabilities -					
Accounts receivable	-	(14,882)	2	-	(14,880)
Prepaid expenses and other current assets	(176)	6,145	613	-	6,582
Other assets	(7,315)	(9,757)	12	-	(17,060)
Accounts payable and accrued liabilities	14,853	(10,654)	808	-	5,007
Deferred liabilities	-	(365)	-	-	(365)
Other liabilities	15,305	(15,111)	2,552	-	2,746
Net cash provided (used) by investing activities	<u>(20,522)</u>	<u>45,873</u>	<u>2,997</u>	<u>-</u>	<u>28,348</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment	(1,184)	(18,184)	(171)	-	(19,539)
Cash paid for acquisition	-	(140,746)	-	-	(140,746)
Other	(3,231)	-	-	-	(3,231)
Net cash provided (used) by investing activities	<u>(4,415)</u>	<u>(158,930)</u>	<u>(171)</u>	<u>-</u>	<u>(163,516)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Payments on long-term debt	(113,000)	-	-	-	(113,000)
Proceeds from long-term debt	5,000	-	-	-	5,000
Intercompany	78,703	113,619	(1,647)	-	190,675
Debt related costs	(941)	-	-	-	(941)
Net cash provided (used) by investing activities	<u>(30,238)</u>	<u>113,619</u>	<u>(1,647)</u>	<u>-</u>	<u>81,734</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(55,175)	562	1,179	-	(53,434)
CASH AND CASH EQUIVALENTS:					
Beginning of period	55,175	4,018	706	-	59,899
End of period	<u>\$ -</u>	<u>\$ 4,580</u>	<u>\$ 1,885</u>	<u>\$ -</u>	<u>\$ 6,465</u>

Note 8. Regulatory, International and Other Matters

We acquired KGMB-TV in Honolulu, Hawaii as part of the Lee acquisition in October 2000. Because we already owned KHON-TV in Honolulu, and both KHON and KGMB were rated among the top four television stations in the Honolulu market, FCC regulations prohibited us from owning both stations. However, we received a temporary waiver from the FCC that has allowed us to operate both stations (and their related "satellite" stations). The FCC recently commenced an extensive review of its ownership rules, including the rule that prohibits our ownership of the two Hawaii stations, to determine whether the ownership restrictions continue to serve the public interest. We have requested a stay of divestiture until the FCC completes its review of the ownership rules and are currently awaiting the FCC's decision on our request. No assurances can be given that the FCC will grant us the stay of divestiture and we may need to sell one of the two stations in Hawaii.

FCC regulations require all commercial television stations in the United States to start broadcasting in digital format by May 2002 and to abandon their present analog format by 2006. Five of our television stations were broadcasting in digital format by the May 2002 deadline and the remainder were granted extensions to November 2002. We expect several of our other stations to meet the November 2002 deadline and have requested an additional six month extension for the rest. Based upon the FCC's treatment of certain broadcasters who were not granted extensions to the original May 2002 deadline, we believe that the FCC will first issue a formal admonishment to any broadcaster whose extension request is denied and then issue a monetary forfeiture if the station has not commenced digital broadcasting within six months of the date of the FCC's admonishment. We cannot predict the extent of the monetary fine, nor can we predict the other actions the FCC will take if the station does not commence digital broadcasts within six months after the date of the fine. Nonetheless, we believe all of our stations (other than five of our satellite stations for which we believe the continued delay is based upon conditions largely outside our control) will have commenced digital broadcasts by May 2003.

Four of our CBS affiliation agreements and one of our NBC affiliation agreements have expired. We are currently in negotiations with CBS and NBC to renew these affiliation agreements and we expect them all to be renewed. The NBC renewal agreement is expected to also cover our other NBC affiliated stations whose affiliation agreements have not yet expired. We do not expect the terms of the renewed affiliation agreements to have an adverse material impact on our results of operations.

Instead of making a required license payment to the Hungarian government in November 2001, our 59.5% owned national radio station in Hungary requested a modification of the broadcast contract and ultimately filed suit in arbitration court seeking reformation of the contract and requesting that the payments be reduced. Subsequently, the arbitration court granted our request to withdraw our claim and terminated the arbitration. The Hungarian government issued an order revoking our station's broadcast license for non-payment of the license fee, and we appealed the order in the Hungarian ordinary court, which ruled in our favor in September 2002. The Hungarian government also filed an action seeking to liquidate our Hungarian broadcast company, but this action was denied by the court. We continue to seek an equitable resolution to this matter. If it is not resolved in a reasonable period of time, it is unlikely we will continue to operate the station under the present fee arrangement. We do not expect an adverse material financial impact to Emmis or EOC if the station does not continue to operate.

The Company is a party to various other legal proceedings arising in the ordinary course of business. In the opinion of management of the Company, however, there are no legal proceedings pending against the Company likely to have a material adverse effect on the Company.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*Note: Certain statements included in this report or in the financial statements contained herein which are not statements of historical fact, including but not limited to those identified with the words "expect," "will" or "look" are intended to be, and are, by this Note, identified as "forward-looking statements," as defined in the Securities and Exchange Act of 1934, as amended, and involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future result, performance or achievement expressed or implied by such forward-looking statement. Such factors include, among others, general economic and business conditions; fluctuations in the demand for advertising; our ability to service our outstanding debt; increased competition in our markets and the broadcasting industry; our ability to attract and secure programming, on-air talent, writers and photographers; inability to obtain necessary approvals for purchases or sale transactions or to complete the transactions; changes in the costs of programming; inability to grow through suitable acquisitions, including desired radio acquisitions; new or changing regulations of the Federal Communications Commission or other governmental agencies; competition from new or different technologies; war, terrorist acts or political instability; and other factors mentioned in other documents filed by the Company with the Securities and Exchange Commission. Emmis does not undertake any obligation to publicly update or revise any forward-looking statements because of new information, future events or otherwise.*

### **General**

The Company evaluates performance of its operating entities based on broadcast cash flow (BCF) and publishing cash flow (PCF). Management believes that BCF and PCF are useful because they provide a meaningful comparison of operating performance between companies in the industry and serve as an indicator of the market value of a group of stations or publishing entities. BCF and PCF are generally recognized by the broadcast and publishing industries as a measure of performance and are used by analysts who report on the performance of broadcasting and publishing groups.

BCF and PCF are not measures of liquidity or of performance in accordance with accounting principles generally accepted in the United States, and should be viewed as a supplement to, and not a substitute for, our results of operations presented on the basis of accounting principles generally accepted in the United States. Specifically, BCF and PCF do not take into account Emmis' debt service requirements and other commitments and, accordingly, BCF and PCF are not necessarily indicative of amounts that may be available for dividends, reinvestment in Emmis' business or other discretionary uses. Moreover, BCF and PCF are not standardized measures and may be calculated in a number of ways. Thus, our calculation of these non-GAAP measures may not be comparable to such non-GAAP measures calculated by other companies. Emmis defines BCF and PCF as revenues net of agency commissions and station operating expenses, excluding noncash compensation.

The primary source of broadcast advertising revenues is the sale of advertising time to local and national advertisers. Publishing entities derive revenue from subscriptions, newsstand sales and the sale of print advertising. Broadcasting revenue is recognized as advertisements are aired. Publication revenue is recognized in the month of delivery of the publication. The most significant station operating expenses are employee salaries and commissions, costs associated with programming, advertising and promotion, and station general and administrative costs.

The Company's results are subject to seasonal fluctuations. Therefore, results shown on a quarterly basis are not necessarily indicative of results for a full year.

Unless otherwise noted, all disclosures contained in the Management's Discussion and Analysis of

Financial Condition and Results of Operations in this Form 10-Q apply to Emmis and EOC.

*Critical Accounting Policies:*

Critical accounting policies are defined as those that encompass significant judgments and uncertainties, and potentially derive materially different results under different assumptions and conditions. We believe that our critical accounting policies are those described below.

*Impairment of Goodwill and Indefinite-lived Intangibles*

The annual impairment tests for goodwill and indefinite-lived intangibles under SFAS No. 142 require us to make certain assumptions in determining fair value, including assumptions about the cash flow growth rates of our businesses. Additionally, the fair values are significantly impacted by macro-economic factors, including market multiples at the time the impairment tests are performed. Accordingly, we may incur additional impairment charges in future periods under SFAS No. 142 to the extent we do not achieve our expected cash flow growth rates, or to the extent that market values decrease.

*Allocations for Purchased Assets*

We typically engage an independent appraisal firm to value assets acquired in a material acquisition. We use the appraisal report to allocate the purchase price of the acquisition. To the extent that purchased assets are not allocated appropriately, depreciation and amortization expense could be misstated.

*Allowance for Doubtful Accounts*

Our allowance for doubtful accounts requires us to estimate losses resulting from our customers' inability to make payments. We specifically review historical write-off activity by market, large customer concentrations, and changes in our customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, then additional allowances may be required.

**Results of Operations for the Three and Six Months Ended August 31, 2002 Compared to August 31, 2001**

In April 2002, we sold 4.6 million shares of Class A common stock, raising \$120.3 million in net proceeds. One half of the proceeds was used in April 2002 to repay outstanding indebtedness under our credit facility and the remaining half of the proceeds was used in July 2002 to redeem 22.6% of ECC's 12 ½% senior discount notes due 2011. In May 2002, we sold KALC-FM to Entercom Communications Corp. for \$88.0 million and KXPK-FM to Entravision Communications Corporation for \$47.5 million. The proceeds from the sales were used to repay outstanding term loans under our credit facility. These transactions impact the comparability of operating results period over period.

**Summary of Segment Operating Results**  
(Dollars in thousands)

	Three Months Ended August 31, 2002	Three Months Ended August 31, 2001	Increase/ (Decrease)	Percentage Change
Radio net revenues	\$ 69,890	\$ 74,097	\$ (4,207)	-5.7%
Television net revenues	55,426	52,864	2,562	4.8%
Publishing net revenues	17,906	17,686	220	1.2%
Total net revenues	<u>143,222</u>	<u>144,647</u>	<u>(1,425)</u>	-1.0%
Radio station operating expenses, excluding noncash compensation	35,100	37,811	(2,711)	-7.2%
Television station operating expenses, excluding noncash compensation	35,252	34,001	1,251	3.7%
Publishing operating expenses, excluding noncash compensation	<u>15,613</u>	<u>15,703</u>	<u>(90)</u>	-0.6%
Total station operating expenses, excluding noncash compensation	85,965	87,515	(1,550)	-1.8%
Radio broadcast cash flow	34,790	36,286	(1,496)	-4.1%
Television broadcast cash flow	20,174	18,863	1,311	7.0%
Publishing cash flow	<u>2,293</u>	<u>1,983</u>	<u>310</u>	15.6%
Total broadcast/publishing cash flow	57,257	57,132	125	0.2%
Radio broadcast cash flow margin	49.8%	49.0%		
Television broadcast cash flow margin	36.4%	35.7%		
Publishing cash flow margin	12.8%	11.2%		
Total broadcast/publishing cash flow margin	40.0%	39.5%		

**Summary of Segment Operating Results**  
(Dollars in thousands)

	Six Months Ended August 31, 2002	Six Months Ended August 31, 2001	Increase/ (Decrease)	Percentage Change
Radio net revenues	\$ 132,614	\$ 140,245	\$ (7,631)	-5.4%
Television net revenues	112,583	106,861	5,722	5.4%
Publishing net revenues	34,831	35,794	(963)	-2.7%
Total net revenues	280,028	282,900	(2,872)	-1.0%
Radio station operating expenses, excluding noncash compensation	69,508	74,847	(5,339)	-7.1%
Television station operating expenses, excluding noncash compensation	72,064	69,875	2,189	3.1%
Publishing operating expenses, excluding noncash compensation	30,723	32,763	(2,040)	-6.2%
Total station operating expenses, excluding noncash compensation	172,295	177,485	(5,190)	-2.9%
Radio broadcast cash flow	63,106	65,398	(2,292)	-3.5%
Television broadcast cash flow	40,519	36,986	3,533	9.6%
Publishing cash flow	4,108	3,031	1,077	35.5%
Total broadcast/publishing cash flow	107,733	105,415	2,318	2.2%
Radio broadcast cash flow margin	47.6%	46.6%		
Television broadcast cash flow margin	36.0%	34.6%		
Publishing cash flow margin	11.8%	8.5%		
Total broadcast/publishing cash flow margin	38.5%	37.3%		

**Net revenues:**

Radio net revenues for the three months ended August 31, 2002 decreased \$4.2 million, or 5.7%, and decreased \$7.6 million, or 5.4% for the six months ended August 31, 2002. On a pro forma basis (assuming the Denver radio asset sales had occurred on March 1, 2001), radio net revenues for the three months ended August 31, 2002 would have decreased \$1.0 million, or 1.4%, and decreased \$2.4 million, or 1.8% for the six months ended August 31, 2002. Radio net revenues were negatively impacted by the devaluation of the peso in Argentina, as international radio net revenues for the three months ended August 31, 2002 decreased \$1.4 million, or 30.6%, and decreased \$2.2 million, or 28.7% for the six months ended August 31, 2002. Domestic radio net revenues were negatively impacted by the results of our New York market due to a format change within the market by one of our competitors. The negative impact in our New York market, which represents approximately 30% of our radio net revenues, was offset by strength in our other markets.

Television net revenues for the three months ended August 31, 2002 increased \$2.6 million, or 4.8% and increased \$5.7 million, or 5.4% for the six months ended August 31, 2002. Included in net revenues in the three months ended August 31, 2001 is approximately \$4 million attributable to our television division earning a performance guaranty when our national sales rep agency did not achieve certain performance targets in the quarter. Excluding this item, television net revenues would have increased 12.9% and 9.7% for the three and six months ended August 31, 2002, respectively. This increase is due to our television stations selling a higher percentage of their inventory and charging higher rates, coupled with approximately \$2.0

million and \$4.3 million of political advertising net revenues in the three and six months ended August 31, 2002, respectively.

Publishing revenues for the three months ended August 31, 2002 increased \$0.2 million, or 1.2% and decreased \$1.0 million, or 2.7% for the six months ended August 31, 2002. This decrease is due to lower advertising and newsstand revenues at our publications. Our publishing business has not seen the same level of recovery in advertisement spending that, in general, our radio and television businesses have experienced.

On a consolidated basis, net revenues for the three months ended August 31, 2002 decreased \$1.4 million, or 1.0%, and decreased \$2.9 million, or 1.0% for the six months ended August 31, 2002 due to the effect of the items described above. On a pro forma basis, net revenues for the three months ended August 31, 2002 increased \$1.8 million, or 1.3%, and increased \$2.4 million, or 0.9% for the six months ended August 31, 2002 due to the effect of the items described above.

**Station operating expenses, excluding noncash compensation:**

Radio station operating expenses, excluding noncash compensation, decreased \$2.7 million, or 7.2% for the three months ended August 31, 2002, and decreased \$5.3 million, or 7.1% for the six months ended August 31, 2002. On a pro forma basis (assuming the Denver radio asset sales had occurred on March 1, 2001), radio station operating expenses, excluding noncash compensation, for the three and six months ended August 31, 2002 would have decreased \$0.8 million, or 2.2% and \$1.8 million, or 2.6% respectively. Radio station operating expenses, excluding noncash compensation decreased due to the implementation of our stock compensation program in December 2001, whereby each full-time employee's salary was reduced by at least 10% and supplemented with a corresponding stock grant.

Television station operating expenses, excluding noncash compensation, for the three and six months ended August 31, 2002 increased \$1.3 million, or 3.7% and \$2.2 million, or 3.1% respectively. This increase is due to higher programming, promotion and sales-related costs, partially offset by the impact of our stock compensation program.

Publishing operating expenses, excluding noncash compensation, decreased \$0.1 million, or 0.6% for the three months ended August 31, 2002 and decreased \$2.0 million, or 6.2% for the six months ended August 31, 2002, due to cost control measures and our stock compensation program.

On a consolidated basis, station operating expenses, excluding noncash compensation, for three and six months ended August 31, 2002 decreased \$1.6 million, or 1.8%, and \$5.2 million, or 2.9% respectively, due to the effect of the items described above. On a pro forma basis, station operating expenses, excluding noncash compensation, for three and six months ended August 31, 2002 increased \$0.4 million, or 0.4%, and decreased \$1.7 million, or 1.0% respectively, due to the effect of the items described above.

**Noncash compensation expenses:**

Noncash compensation expenses for the three months ended August 31, 2002 were \$5.8 million compared to \$1.6 million for the same period of the prior year, an increase of \$4.2 million or 263.0%. Noncash compensation expenses for the six months ended August 31, 2002 were \$11.1 million compared to \$4.3 million for the same period of the prior year, an increase of \$6.8 million or 157.0%. Noncash compensation includes compensation expense associated with restricted common stock issued under employment agreements, common stock contributed to the Company's Profit Sharing Plan, common stock issued to employees at our discretion and common stock issued to employees pursuant to our stock compensation program. Our stock compensation program increased our noncash compensation expense by



approximately \$3.8 million and \$8.2 million for the three and six months ended August 31, 2002, respectively. Our stock compensation program began December 2001; therefore, no expense related to this program was recorded in the three and six month periods ended August 31, 2001.

**Corporate expenses, excluding noncash compensation:**

Corporate expenses, excluding noncash compensation, for the three months ended August 31, 2002 were \$5.0 million compared to \$4.6 million for the same period of the prior year, an increase of \$0.4 million or 10.5%. Corporate expenses, excluding noncash compensation, for the six months ended August 31, 2002 were \$10.2 million compared to \$9.5 million for the same period of the prior year, an increase of \$0.7 million or 6.9%. These costs increased due to professional fees associated with the amendment to our credit facility and increases in training and personnel development, partially offset by benefits from our stock compensation program.

**Depreciation and amortization:**

Radio depreciation and amortization expense for the three months ended August 31, 2002 was \$1.9 million compared to \$8.6 million for the same period of the prior year, a decrease of \$6.7 million or 77.6%. Radio depreciation and amortization expense for the six months ended August 31, 2002 was \$4.0 million compared to \$16.5 million for the same period of the prior year, a decrease of \$12.5 million or 75.6%. The decrease was mainly attributable to our adoption on March 1, 2002 of SFAS No. 142, "Goodwill and Other Intangible Assets," as described more fully in Note 3 to the condensed consolidated financial statements. Adoption of this accounting standard had the impact of eliminating our amortization expense for goodwill and FCC licenses. For comparison purposes, for the three and six month periods ended August 31, 2001, we recorded radio amortization expense for goodwill and FCC licenses of \$7.2 million and \$13.4 million, respectively.

Television depreciation and amortization expense for the three months ended August 31, 2002 was \$7.0 million compared to \$13.2 million for the same period of the prior year, a decrease of \$6.2 million or 46.6%. Television depreciation and amortization expense for the six months ended August 31, 2002 was \$14.0 million compared to \$26.3 million for the same period of the prior year, a decrease of \$12.3 million or 46.8%. The decrease was also mainly attributable to our adoption of SFAS No. 142, "Goodwill and Other Intangible Assets." For comparison purposes, for the three and six month periods ended August 31, 2001, we recorded television amortization expense for goodwill and FCC licenses of \$7.0 million and \$13.9 million, respectively.

Publishing depreciation and amortization expense for the three months ended August 31, 2002 was \$0.5 million compared to \$2.1 million for the same period of the prior year, a decrease of \$1.6 million or 78.3%. Publishing depreciation and amortization expense for the six months ended August 31, 2002 was \$1.0 million compared to \$4.2 million for the same period of the prior year, a decrease of \$3.2 million or 75.3%. The decrease was also mainly attributable to our adoption of SFAS No. 142, "Goodwill and Other Intangible Assets." For comparison purposes, for the three and six month periods ended August 31, 2001, we recorded publishing amortization expense for goodwill of \$1.9 million and \$2.7 million, respectively.

On a consolidated basis, depreciation and amortization expense for the three months ended August 31, 2002 was \$10.6 million compared to \$25.1 million for the same period of the prior year, a decrease of \$14.5 million or 57.8%. Depreciation and amortization expense for the six months ended August 31, 2002 was \$21.4 million compared to \$49.2 million for the same period of the prior year, a decrease of \$27.8 million or 56.6%. The decrease was also mainly attributable to our adoption of SFAS No. 142, "Goodwill and Other Intangible Assets." For comparison purposes, for the three and six month periods ended August 31, 2001, we

recorded amortization expense for goodwill and FCC licenses of \$16.1 million and \$30.0 million, respectively.

### **Operating income:**

Radio operating income for the three months ended August 31, 2002 was \$32.9 million compared to \$27.7 million for the same period of the prior year, an increase of \$5.2 million or 18.7%. Radio operating income for the six months ended August 31, 2002 was \$59.1 million compared to \$48.5 million for the same period of the prior year, an increase of \$10.6 million or 21.9%. Substantially all of the increase was attributable to our adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," as described more fully in Note 3 to the condensed financial statements. Adoption of this accounting standard had the impact of eliminating our radio amortization expense for goodwill and FCC licenses, which totaled \$7.2 million in the three months ended August 31, 2001 and \$13.4 million in the six months ended August 31, 2001.

Television operating income for the three months ended August 31, 2002 was \$13.1 million compared to \$5.7 million for the same period of the prior year, an increase of \$7.4 million or 131.8%. Television operating income for the six months ended August 31, 2002 was \$26.5 million compared to \$10.7 million for the same period of the prior year, an increase of \$15.8 million or 147.4%. Substantially all of the increase was attributable to our adoption of SFAS No. 142, "Goodwill and Other Intangible Assets." Adoption of this accounting standard had the impact of eliminating our television amortization expense for goodwill and FCC licenses, which totaled \$7.0 million in the three months ended August 31, 2001 and \$13.9 million in the six months ended August 31, 2001.

Publishing operating income for the three months ended August 31, 2002 was \$1.8 million compared to a loss of \$0.1 million for the same period of the prior year, an increase of \$1.9 million or 1,532.8%. Publishing operating income for the six months ended August 31, 2002 was \$3.1 million compared to a loss of \$1.2 million for the same period of the prior year, an increase of \$4.3 million or 351.1%. Substantially all of the increase was attributable to our adoption of SFAS No. 142, "Goodwill and Other Intangible Assets." Adoption of this accounting standard had the impact of eliminating our publishing amortization expense for goodwill, which totaled \$1.9 million in the three months ended August 31, 2001 and \$2.7 million in the six months ended August 31, 2001.

On a consolidated basis, operating income for the three months ended August 31, 2002 was \$35.8 million compared to \$25.7 million for the same period of the prior year, an increase of \$10.1 million or 39.5%. Operating income for the six months ended August 31, 2002 was \$65.1 million compared to \$41.1 million for the same period of the prior year, an increase of \$24.0 million or 58.4%. Substantially all of the increase was attributable to our adoption of SFAS No. 142, "Goodwill and Other Intangible Assets. Adoption of this accounting standard had the impact of eliminating our amortization expense for goodwill and FCC licenses, which totaled \$16.1 million in the three months ended August 31, 2001 and \$30.0 million in the six months ended August 31, 2001.

### **Interest expense:**

With respect to Emmis, interest expense for the three months ended August 31, 2002 was \$26.2 million compared to \$32.5 million for the same period of the prior year, a decrease of \$6.3 million or 19.4%. Interest expense for the six months ended August 31, 2002 was \$56.1 million compared to \$67.1 million for the same period of the prior year, a decrease of \$11.0 million or 16.4%. This decrease is primarily attributable to a decrease in the interest rates we pay on amounts outstanding under our credit facility, which is variable rate debt. The decreased interest rates reflected both a decrease in the base interest rate for our credit facility due to a lower overall interest rate environment, and a decrease in the margin applied to the base

rate resulting from the June 2002 credit facility amendment. Additionally, in the quarter ended May 31, 2002, we repaid amounts outstanding under our credit facility with the proceeds of our Denver radio asset sales in May 2002 and a portion of the proceeds from our equity offering in April 2002, with the remaining portion being used to reduce amounts outstanding under our senior discount notes in the quarter ended August 31, 2002. With respect to EOC, interest expense for the three months ended August 31, 2002 was \$19.8 million compared to \$25.6 million for the same period of the prior year, a decrease of \$5.8 million or 22.7%. Interest expense for the six months ended August 31, 2002 was \$42.3 million compared to \$55.9 million for the same period of the prior year, a decrease of \$13.6 million or 24.4%. This decrease is also primarily attributable to a decrease in the interest rates we pay on amounts outstanding under our credit facility, and repayments of amounts outstanding under our credit facility. The difference between interest expense for Emmis and EOC is due to interest expense associated with the senior discount notes, for which ECC is the obligor, and thus it is excluded from the operations of EOC.

**Income (loss) before income taxes, extraordinary loss and accounting change:**

With respect to Emmis, income (loss) before income taxes, extraordinary loss and accounting change increased to \$7.2 million for the three months ended August 31, 2002 from a loss before income taxes, extraordinary loss and accounting change of \$7.8 million for the same period of the prior year. Income (loss) before income taxes, extraordinary loss and accounting change increased to \$15.0 million for the six months ended August 31, 2002 from a loss before income taxes, extraordinary loss and accounting change of \$26.4 million for the same period of the prior year. The increase in the income before income taxes, extraordinary loss and accounting change for the three and six months ended August 31, 2002 is mainly attributable to: (1) the elimination of our amortization expense for goodwill and broadcasting licenses of \$16.1 million and \$30.0 million, respectively, (2) a reduction in interest expense as a result of the factors described above under interest expense, and (3) in the case of the six months ended August 31, 2002, the gain on sale of our Denver radio assets of \$8.9 million. With respect to EOC, income (loss) before income taxes, extraordinary loss and accounting change increased to \$13.6 million for the three months ended August 31, 2002 from a loss before income taxes, extraordinary loss and accounting change of \$1.9 million for the same period of the prior year. Income (loss) before income taxes, extraordinary loss and accounting change increased to \$28.9 million for the six months ended August 31, 2002 from a loss before income taxes, extraordinary loss and accounting change of \$16.1 million for the same period of the prior year. The increase in the income before income taxes, extraordinary loss and accounting change is mainly attributable to: (1) the elimination of our amortization expense for goodwill and broadcasting licenses of \$16.1 million and \$30.0 million, respectively, (2) a reduction in interest expense as a result of the factors described above under interest expense, and (3) in the case of the six months ended August 31, 2002, the gain on sale of our Denver radio assets of \$8.9 million.

**Net loss:**

With respect to Emmis, net loss decreased to \$4.6 million for the three months ended August 31, 2002 from \$7.2 million for the same period of the prior year. The decrease in net loss is mainly attributable to the elimination of amortization expense and decreased interest expense, each described above, and each net of taxes, partially offset by a \$8.8 million extraordinary loss, net of a deferred tax benefit, relating to the premium paid on the redemption of our discount notes and the write-off of deferred debt fees associated with debt repaid during the quarter. Net loss increased to \$170.1 million for the six months ended August 31, 2002 from \$20.6 million for the same period of the prior year. The increase in net loss is mainly attributable to (1) a \$167.4 million impairment charge, net of a deferred tax benefit, under the cumulative effect of accounting change as an accumulated transition adjustment attributable to the adoption on March 1, 2002 of SFAS No. 142, "Goodwill and Other Intangible Assets." (2) a \$11.1 million extraordinary loss, net of a deferred tax benefit, relating to the premium paid on the redemption of our discount notes and the write-off of deferred debt fees associated with debt repaid during the six months, and (3) the elimination of amortization expense,

the gain on asset sales and the reduction in interest expense, all described above, and all net of taxes; With respect to EOC, net income was \$8.0 million for the three months ended August 31, 2002 compared to a net loss of \$3.2 million for the same period of the prior year. The increase in net income is mainly attributable to the elimination of amortization expense, and the decrease in interest expense, each described above, and each net of taxes, partially offset by a \$0.5 million extraordinary loss, net of a deferred tax benefit, relating to the write-off of deferred debt fees associated with debt repaid during the quarter. Net loss increased to \$152.5 million for the six months ended August 31, 2002 from \$14.0 million for the same period of the prior year. The increase in net loss is mainly attributable to (1) a \$167.4 million impairment charge, net of a deferred tax benefit, under the cumulative effect of accounting change as an accumulated transition adjustment attributable to the adoption on March 1, 2002 of SFAS No. 142, "Goodwill and Other Intangible Assets."; (2) a \$2.9 million extraordinary loss, net of a deferred tax benefit, relating to the write-off of deferred debt fees associated with debt repaid during the six months, and (3) the elimination of amortization expense, the gain on asset sales and the reduction in interest expense, all described above, and all net of taxes.

## **Liquidity and Capital Resources**

Our primary sources of liquidity are cash provided by operations and cash available through revolver borrowings under our credit facility. Our primary uses of capital have been historically, and are expected to continue to be, funding acquisitions, capital expenditures, working capital and debt service and, in the case of ECC, preferred stock dividend requirements. Since we manage cash on a consolidated basis, any cash needs of a particular segment or operating entity are met by intercompany transactions. See Investing Activities below for discussion of specific segment needs.

At August 31, 2002, we had cash and cash equivalents of \$11.7 million and net working capital for Emmis and EOC of \$40.5 million and \$41.7 million, respectively. At February 28, 2002, we had cash and cash equivalents of \$6.4 million and net working capital for Emmis and EOC of \$19.8 million and \$21.0 million, respectively, excluding assets held for sale and associated liabilities. Due to the economic stimulus package passed by Congress in March 2002, Emmis recorded a tax refund receivable of \$12.8 million in the quarter ended May 31, 2002, which remains outstanding as of August 31, 2002. The remaining increase in net working capital primarily relates to accounts receivable increasing more than the increase in current liabilities.

## **Operating Activities**

With respect to Emmis, net cash flows provided by operating activities were \$35.5 million for the six months ended August 31, 2002 compared to \$30.4 million for the same period of the prior year. With respect to EOC, net cash flows provided by operating activities were \$34.6 million for the six months ended August 31, 2002 compared to net cash flows provided by operating activities of \$28.3 million for the same period of the prior year. The increase in cash flows provided by operating activities for the six months ended August 31, 2002 as compared to the same period in the prior year is due to a slight increase in net revenues less station operating expenses and corporate expenses, combined with changes in the timing of cash receipts and payments. Cash flows provided by operating activities are historically the highest in our third and fourth fiscal quarters as a significant portion of our accounts receivable collections is derived from revenues recognized in our second and third fiscal quarters, which are our highest revenue quarters.

## **Investing Activities**

Cash flows provided by investing activities were \$122.3 million for the six months ended August 31, 2002 compared to cash used in investing of \$163.5 million in the same period of the prior year. This increase is primarily attributable to our sales of radio stations in the six months ended August 31, 2002 as opposed to

our purchase of radio stations in the six months ended August 31, 2001, partially offset by a reduction in capital expenditures in the six months ended August 31, 2002 over the same period in the prior year. Investment activities include capital expenditures and business acquisitions and dispositions.

As discussed in results of operations above and in Note 4 to the accompanying condensed consolidated financial statements, Emmis sold radio stations KALC-FM and KXPB-FM in Denver, Colorado for \$135.5 million in cash in the quarter ended May 31, 2002. The net cash proceeds of \$135.5 million were used to repay outstanding borrowings under the credit facility. As disclosed in the supplemental disclosures to the statements of cash flows, Emmis acquired radio stations KKLT-FM, KTAR-AM and KMVP-AM, in Phoenix, Arizona, in the quarter ended May 31, 2001 for cash of \$140.7 million. The Company financed the acquisition through a \$20.0 million advance payment borrowed under the credit facility in June 2000 and the remainder with borrowings under the credit facility and proceeds from ECC's March 2001 senior discount notes offering. Emmis began programming and selling advertising on the radio stations on August 1, 2000 under a time brokerage agreement.

Capital expenditures primarily relate to leasehold improvements to various office and studio facilities, broadcast equipment purchases, tower upgrades and computer equipment replacements. In the six month periods ended August 31, 2002 and 2001, we had capital expenditures of \$12.2 million and \$19.5 million, respectively. Of this decrease, approximately \$6.4 million relates to the construction of new operating facilities for WALA-TV in Mobile, Alabama in the first six months of the prior year. We anticipate that future requirements for capital expenditures will include capital expenditures incurred during the ordinary course of business, including approximately \$11.0 million in fiscal 2003 for the conversion to digital television. Although we expect that substantially all of our stations will broadcast a digital signal by the end of our fiscal 2003, we will incur approximately \$8 million of additional costs, after fiscal 2003, to upgrade the digital signals of five of our local stations and an indeterminable amount to upgrade the digital signals of our nine satellite stations. We expect to fund such capital expenditures with cash generated from operating activities and borrowings under our credit facility.

### **Financing Activities**

Cash flows used in financing activities for Emmis and EOC were \$152.5 million and \$151.6 million, respectively, for the six months ended August 31, 2002. Cash flows provided by financing activities for Emmis and EOC were \$79.6 million and \$81.7 million, respectively, for the same period of the prior year.

As discussed in Note 4 to the accompanying condensed consolidated financial statements, in April 2002, ECC completed the sale of 4.6 million shares of its Class A common stock at \$26.80 per share resulting in total proceeds of \$123.3 million. The net proceeds of \$120.3 million were contributed to EOC and 50% of the net proceeds were used in April 2002 to repay outstanding borrowings under our credit facility. The remainder was invested, and in July 2002 distributed to ECC to redeem approximately 22.6% of ECC's \$370.0 million, face value, senior discount notes (see discussion below). As indicated in Investing Activities above, net proceeds of \$135.5 million from the sale of two radio stations in Denver were also used to repay outstanding indebtedness under the credit facility during the six months ended August 31, 2002.

On March 28, 2001, ECC received \$202.6 million of proceeds from the issuance of \$370.0 million face value, 12 ½% senior discount notes due 2011. The net proceeds of \$191.1 million, less \$93.0 million held in escrow at ECC, were distributed to EOC and used to fund the acquisition of the Phoenix radio stations discussed in Investing Activities above. In June 2001, upon completion of the Company's reorganization, the proceeds held in escrow were released and used to reduce outstanding borrowings under the credit facility.

As of August 31, 2002, EOC had \$1,059.0 million of corporate indebtedness outstanding under our

credit facility (\$741.9 million) and senior subordinated notes (\$300.0 million), and an additional \$17.1 million of other indebtedness. As of August 31, 2002, total indebtedness outstanding for Emmis included all of EOC's indebtedness as well as \$186.4 million of senior discount notes. Emmis also had \$143.8 million of our convertible preferred stock outstanding. All outstanding amounts under our credit facility bear interest, at our option, at a rate equal to the Eurodollar rate or an alternative Base Rate plus a margin. As of August 31, 2002, our weighted average borrowing rate under our credit facility was approximately 6.0% and our overall weighted average borrowing rate, after taking into account amounts outstanding under our senior subordinated notes and senior discount notes, was approximately 7.5%. The overall weighted average borrowing rate for EOC, which would exclude the senior discount notes, was approximately 6.6%.

Based on amounts currently outstanding under our senior subordinated notes, the debt service requirements of EOC for these notes over the next twelve-month period are \$24.4 million. ECC has no additional debt service requirements in the next twelve-month period since interest on its senior discount notes accretes into the principal balance of the notes until March 2006. However, ECC has preferred stock dividend requirements of \$9.0 million for the next twelve-month period. The terms of ECC's preferred stock provide for a quarterly dividend payment of \$.78125 per share on each January 15, April 15, July 15 and October 15. While Emmis has sufficient liquidity to declare and pay the dividends as they become due, it was not permitted to do so for the April 15, 2002 payment because Emmis' leverage ratio under the senior discount notes indenture exceeded 8:1 and its leverage ratio under the senior subordinated notes indenture exceeded 7:1. ECC's board of directors set a record date for the April 15, 2002 payment, but did not declare the dividend. Instead, a wholly-owned, unrestricted subsidiary of EOC made a payment of \$.78125 per share to each preferred shareholder of record. This subsidiary was permitted to make the payment to the preferred shareholders under the senior discount notes and senior subordinated notes indentures. Currently, Emmis meets its leverage ratio requirements under both the senior discount notes indenture and the senior subordinated notes indenture. On July 2, 2002, ECC's board of directors declared the April 15, 2002 dividend, as well as dividends payable October 15, 2001 and January 15, 2002, and deemed the obligation to pay each dividend to have been discharged by the subsidiary's prior payment. On August 19, 2002, ECC's board of directors declared the October 15, 2002 dividend.

At October 2, 2002, we had \$175.9 million available under our credit facility less \$6.9 million in outstanding letters of credit. As part of our business strategy, we continually evaluate potential acquisitions of radio and television stations, as well as publishing properties. If we elect to take advantage of future acquisition opportunities, we may incur additional debt or issue additional equity or debt securities, depending on market conditions and other factors.

## **Intangibles**

At August 31, 2002, approximately 79% of our total assets consisted of intangible assets, such as FCC broadcast licenses, goodwill, subscription lists and similar assets, the value of which depends significantly upon the operational results of our businesses. In the case of our radio and television stations, we would not be able to operate the properties without the related FCC license for each property. FCC licenses are renewed every eight years; consequently, we continually monitor our stations' compliance with the various regulatory requirements. Historically, all of our FCC licenses have been renewed at the end of their respective eight-year periods, and we expect that all FCC licenses will continue to be renewed in the future.

## **New Accounting Pronouncements**

In June 2001, the FASB issued SFAS No. 141, "Business Combinations." Statement No. 141 addresses financial accounting and reporting for business combinations and supersedes Accounting Principle Board ("APB") Opinion No. 16, "Business Combinations" and FASB Statement No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." Statement No. 141 is effective for all business combinations initiated after June 30, 2001 and eliminates the pooling-of-interest method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. Statement No. 141 also changes the criteria to recognize intangible assets apart from goodwill. The Company adopted this Statement on July 1, 2001. The Company has historically used the purchase method to account for all business combinations and the adoption of this Statement did not have a material impact on the Company's financial position, cash flows or results of operations.

In June 2001, the FASB issued SFAS No. 142 "Goodwill and Other Intangible Assets" that requires companies to cease amortizing goodwill and certain other indefinite-lived intangible assets, including broadcast licenses. Under SFAS 142, goodwill and certain indefinite-lived intangibles will not be amortized into results of operations, but instead the recorded value of certain indefinite-lived intangibles will be tested for impairment at least annually with impairment being measured as the excess of the asset's carrying amount over its fair value. Intangible assets that have finite useful lives will continue to be amortized over their useful lives and measured for impairment in accordance with SFAS 121. In connection with the adoption of SFAS 142 effective March 1, 2002, we recorded an impairment loss of \$167.4 million, net of tax, reflected as the cumulative effect of an accounting change in the accompanying condensed consolidated statements of operations. The adoption of this accounting standard reduced our amortization of goodwill and intangibles by approximately \$16.1 million and \$30.0 million in the three and six months ended August 31, 2002, respectively. However, our impairment reviews may result in future periodic write-downs.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" that applies to legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, or development and/or the normal operation of a long-lived asset. Under this standard, guidance is provided on measuring and recording the liability. Adoption of this Statement by the Company will be effective on March 1, 2003. The Company does not believe that the adoption of this Statement will materially impact the Company's financial position, cash flows or results of operations.

Effective March 1, 2002, the Company adopted SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" that addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," it removes certain assets such as deferred tax assets, goodwill and intangible assets not being amortized from its scope and retains the requirements of SFAS No. 121 regarding the recognition of impairment losses on other long-lived assets held for use. SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring events and Transactions" for the disposal of a segment of a business. However, SFAS No. 144 retains the requirement in Opinion 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Adoption of this statement did not have a material impact on the Company's financial position, cash flows or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". Statement No. 145 rescinds FASB

Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, and FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". Statement No. 145 also rescinds FASB Statement No. 44, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Statement No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Adoption of this Statement by the Company will be effective on March 1, 2003. The Company has not assessed the impact, if any, that will result from the adoption of Statement No. 145.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Statement No. 146 supersedes Emerging Issues Task Force Issue No. 94-3. Statement No. 146 requires that the liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, not at the date of an entity's commitment to an exit or disposal plan. The provisions of Statement No. 146 are effective for exit or disposal activities initiated after December 31, 2002. The Company does not anticipate that the adoption of Statement No. 146 will have a material impact on its consolidated financial position, results of operations or cash flows.

### **Regulatory and Other Matters**

We acquired KGMB-TV in Honolulu, Hawaii as part of the Lee acquisition in October 2000. Because we already owned KHON-TV in Honolulu, and both KHON and KGMB were rated among the top four television stations in the Honolulu market, FCC regulations prohibited us from owning both stations. However, we received a temporary waiver from the FCC that has allowed us to operate both stations (and their related "satellite" stations). The FCC recently commenced an extensive review of its ownership rules, including the rule that prohibits our ownership of the two Hawaii stations, to determine whether the ownership restrictions continue to serve the public interest. We have requested a stay of divestiture until the FCC completes its review of the ownership rules and are currently awaiting the FCC's decision on our request. No assurances can be given that the FCC will grant us the stay of divestiture and we may need to sell one of the two stations in Hawaii.

FCC regulations require all commercial television stations in the United States to start broadcasting in digital format by May 2002 and to abandon their present analog format by 2006. Five of our television stations were broadcasting in digital format by the May 2002 deadline and the remainder were granted extensions to November 2002. We expect several of our other stations to meet the November 2002 deadline and have requested an additional six month extension for the rest. Based upon the FCC's treatment of certain broadcasters who were not granted extensions to the original May 2002 deadline, we believe that the FCC will first issue a formal admonishment to any broadcaster whose extension request is denied and then issue a monetary forfeiture if the station has not commenced digital broadcasting within six months of the date of the FCC's admonishment. We cannot predict the extent of the monetary fine, nor can we predict the other actions the FCC will take if the station does not commence digital broadcasts within six months after the date of the fine. Nonetheless, we believe all of our stations (other than five of our satellite stations for which we believe the continued delay is based upon conditions largely outside our control) will have commenced digital broadcasts by May 2003.

Four of our CBS affiliation agreements and one of our NBC affiliation agreements have expired. We are currently in negotiations with CBS and NBC to renew these affiliation agreements and we expect them all to be renewed. The NBC renewal agreement is expected to also cover our other NBC affiliated stations



whose affiliation agreements have not yet expired. We do not expect the terms of the renewed affiliation agreements to have an adverse material impact on our results of operations.

### **Quantitative and Qualitative Disclosures About Market Risk**

Management monitors and evaluates changes in market conditions on a regular basis. Based upon the most recent review, management has determined that there have been no material developments affecting market risk since the filing of the Company's Annual Report on Form 10-K for the year ended February 28, 2002.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Discussion regarding these items is included in management's discussion and analysis of financial condition and results of operations.

### **Item 4. Controls and Procedures**

Based on their most recent evaluation, which was completed within 90 days of the filing of this Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer believe the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) are effective. There were not any significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

Instead of making a required license payment to the Hungarian government in November 2001, our 59.5% owned national radio station in Hungary requested a modification of the broadcast contract and ultimately filed suit in arbitration court seeking reformation of the contract and requesting that the payments be reduced. Subsequently, the arbitration court granted our request to withdraw our claim and terminated the arbitration. The Hungarian government issued an order revoking our station's broadcast license for non-payment of the license fee, and we appealed the order in the Hungarian ordinary court, which ruled in our favor in September 2002. The Hungarian government also filed an action seeking to liquidate our Hungarian broadcast company, but this action was denied by the court. We continue to seek an equitable resolution to this matter. If it is not resolved in a reasonable period of time, it is unlikely we will continue to operate the station under the present fee arrangement. We do not expect an adverse material financial impact to Emmis or EOC if the station does not continue to operate.

The Company is a party to various other legal proceedings arising in the ordinary course of business. In the opinion of management of the Company, however, there are no legal proceedings pending against the Company likely to have a material adverse effect on the Company.

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### Item 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of the shareholders of ECC was held on June 25, 2002, the following matters received the following votes:

<u>Matter Description</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Abstentions &amp; Broker Non-Votes</u>
1. Election of Directors			
Richard A. Leventhal	83,018,541	2,441,239	12,098,036
Lawrence B. Sorrel	83,092,380	2,367,400	12,098,036
2. Approval of the 2002 Equity Compensation Plan	57,536,753	23,037,735	16,983,328

## Item 6. Exhibits and Reports on Form 8-K

### (a) Exhibits.

The following exhibits are filed or incorporated by reference as a part of this report:

- 3.1 Second Amended and Restated Articles of Incorporation of Emmis Communications Corporation, incorporated by reference from Exhibit 3.1 to the Company's Form 10-K/A for the year ended February 29, 2000, and an amendment thereto relating to certain 12.5% Senior Preferred Stock incorporated by reference from Exhibit 3.1 to the Company's current report on Form 8-K filed December 13, 2001.
- 3.2 Amended and Restated Bylaws of Emmis Communications Corporation, incorporated by reference from Exhibit 3.2 to the Company's Form 10-K/A for the year ended February 29, 2000.
- 3.3 Articles of Incorporation of Emmis Operating Company, incorporated by reference from Exhibit 3.4 to the Company's Form S-3/A File No. 333-62172 filed on June 21, 2001.
- 3.4 Bylaws of Emmis Operating Company, incorporated by reference from Exhibit 3.5 to the Company's Form S-3/A File No. 333-62172 filed on June 21, 2001.
- 10.1 Fourth Amendment to Fourth Amended and Restated Revolving Credit and Term Loan Agreement incorporated by reference from Exhibit 10.1 to the company's Form 10-Q for the quarter ended May 31, 2002.
- 15 Letter re: unaudited interim financial information
- 99.1 Certification of CEO of Emmis Communications Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification of CFO of Emmis Communications Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.3 Certification of CEO of Emmis Operating Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.4 Certification of CFO of Emmis Operating Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

### (b) Reports on Form 8-K

On June 19, 2002, ECC and EOC filed a Form 8-K announcing the appointment of Ernst & Young, LLP as our independent auditor, dismissing Arthur Andersen, LLP. This Form 8-K was amended by ECC on June 20, 2002 and by EOC on June 26, 2002.

On July 15, 2002 both ECC and EOC filed a form 8-K/A to amend the form 8-K filed on May 14, 2002 addressing risk factors relating to both companies.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMMIS COMMUNICATIONS  
CORPORATION

Date: October 14, 2002

By: /s/ WALTER Z. BERGER  
Walter Z. Berger  
Executive Vice President (Authorized Corporate  
Officer), Chief Financial Officer and Treasurer

## CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Jeffrey H. Smulyan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Emmis Communications Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 14, 2002

/s/ JEFFREY H. SMULYAN  
Jeffrey H. Smulyan  
Chairman of the Board, President and  
Chief Executive Officer

#### **CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, Walter Z. Berger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Emmis Communications Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure

controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 14, 2002

/s/ WALTER Z. BERGER  
Walter Z. Berger  
Executive Vice President, Treasurer  
and Chief Financial Officer

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMMIS OPERATING COMPANY

Date: October 14, 2002

By: /s/ WALTER Z. BERGER  
Walter Z. Berger  
Executive Vice President (Authorized Corporate  
Officer), Chief Financial Officer and Treasurer

## CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Jeffrey H. Smulyan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Emmis Operating Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing

the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 14, 2002

/s/ JEFFREY H. SMULYAN  
Jeffrey H. Smulyan  
Chairman of the Board, President and  
Chief Executive Officer

#### **CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, Walter Z. Berger, certify that:

- 1. I have reviewed this quarterly report on Form 10-Q of Emmis Operating Company;
- 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;



5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 14, 2002

/s/ WALTER Z. BERGER  
Walter Z. Berger  
Executive Vice President, Treasurer  
and Chief Financial Officer

Exhibit 15

October 14, 2002

The Board of Directors and Shareholders  
Emmis Communications Corporation and Subsidiaries

We are aware of the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-83890, 333-14657, 333-42878, 333-71904 and 333-92318) of Emmis Communications Corporation and the incorporation by reference in the Registration Statement on Form S-3 (No. 333-62172) of Emmis Communications Corporation and Emmis Operating Company (collectively, "Emmis") of our report dated September 26, 2002 relating to the unaudited condensed consolidated interim financial statements of Emmis Communications Corporation and Emmis Operating Company that are included in Emmis' Form 10-Q for the quarter ended August 31, 2002. Pursuant to Rule 436(c) of the Securities Act of 1933 our report is not part of the registration statement prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933. It should be noted that we have not performed any procedures subsequent to September 26, 2002.

Very truly yours,

/s/ ERNST & YOUNG LLP

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ERNST & YOUNG LLP

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Emmis Communications Corporation (the "Company"), that, to his knowledge:

- (1) the Quarterly Report of the Company on Form 10-Q for the period ended August 31, 2002, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 14, 2002

/s/ JEFFREY H. SMULYAN  
Jeffrey H. Smulyan  
Chairman of the Board, President and  
Chief Executive Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Emmis Communications Corporation (the "Company"), that, to his knowledge:

- (1) the Quarterly Report of the Company on Form 10-Q for the period ended August 31, 2002, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 14, 2002

/s/ WALTER Z. BERGER  
Walter Z. Berger  
Executive Vice President, Treasurer  
and Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Emmis Operating Company (the "Company"), that, to his knowledge:

- (1) the Quarterly Report of the Company on Form 10-Q for the period ended August 31, 2002, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 14, 2002

/s/ JEFFREY H. SMULYAN  
Jeffrey H. Smulyan  
Chairman of the Board, President and  
Chief Executive Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Emmis Operating Company (the "Company"), that, to his knowledge:

- (1) the Quarterly Report of the Company on Form 10-Q for the period ended August 31, 2002, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 14, 2002

/s/ WALTER Z. BERGER  
Walter Z. Berger  
Executive Vice President, Treasurer  
and Chief Financial Officer